

MEMORANDUM

September 15, 2011

To: Honorable Carolyn Maloney
Attention: Kristin Richardson

From: David H. Carpenter, Legislative Attorney, 7-9118

Subject: **How Fannie Mae and Freddie Mac Typically Handle Requests to Create Oil, Gas, or Mineral Leases on Residential Properties**

You have asked for an explanation of the typical process by which Fannie Mae (the Federal National Mortgage Association)¹ and Freddie Mac (Federal Home Loan Mortgage Corporation)² evaluate requests from mortgage borrowers to establish oil, gas, or mineral leases on properties for which Fannie Mae and Freddie Mac own or guarantee the mortgage secured by such properties.³

Fannie Mae and Freddie Mac are government-sponsored enterprises (GSEs) that are congressionally chartered to help maintain a secondary mortgage market. Fannie Mae and Freddie Mac do not originate mortgages. Rather, their primary line of business involves purchasing mortgages originated by other financial institutions as a way to create liquidity in the mortgage market and, thus, encourage lenders to originate more mortgages. The GSEs either hold these mortgages in their own portfolios or convert the income streams of pools of mortgages into mortgage-backed securities and guarantee the performance of these securities for investors.⁴

Generally, the mortgages that are held or guaranteed by the GSEs must conform to various statutory and regulatory standards. In order for institutions to sell conforming mortgages to either Fannie Mae or Freddie Mac, those institutions must meet certain eligibility requirements and sign binding contracts with the GSEs promising, among other things, they will comply with extensive seller guidelines established by the two companies.⁵ Fannie Mae and Freddie Mac have developed uniform mortgage documents, which take into account variances in state law, that lenders use for loans they intend to sell to either of the GSEs.⁶ When Fannie Mae and Freddie Mac purchase a mortgage, they acquire all of the rights that the

¹ 12 U.S.C. §§ 1716, *et seq.*

² 12 U.S.C. §§ 1451, *et seq.*

³ Per your request, this memorandum does not address situations in which Fannie Mae and Freddie Mac acquire mortgages secured by properties that are subject to antecedent oil, gas, or mineral leases.

⁴ For more information on the general operations of Fannie Mae and Freddie Mac, see CRS Report R40800, *GSEs and the Government's Role in Housing Finance: Issues for the 112th Congress*, by N. Eric Weiss.

⁵ Fannie Mae 2011 Single Family Selling Guide, pub. Aug. 30, 2011, available at <https://www.efanniemae.com/sf/guides/ssg/sg/pdf/sel083011.pdf>; Freddie Mac Single-Family Seller/Servicer Guide, available via the AllRegs link at <http://www.freddie.mac.com/sell/guide/>.

⁶ Fannie Mae/Freddie Mac Single Family Uniform Security Instruments, available at (continued...)

originating lender had under the mortgage, including the right to foreclose on the property upon an act of default as provided for in the mortgage and under state law.⁷

Fannie Mae and Freddie Mac also contract with financial institutions to service the mortgages the GSEs own or guarantee. These servicers work directly with mortgage borrowers on behalf of the GSEs performing tasks such as receiving and appropriately distributing monthly mortgage payments and responding to borrower questions about their mortgages. Institutions that service GSE mortgages also must meet certain eligibility requirements and sign contracts that bind them to comply with Fannie Mae and Freddie Mac's extensive servicer guidelines, as well as applicable laws and regulations.⁸

Although Fannie Mae and Freddie Mac engage in substantially similar activities and subject sellers and servicers they work with to very similar standards, the contracts they enter into with, and the guidance they provide to, sellers and servicers vary to some degree.

Typically, when Fannie Mae and Freddie Mac acquire mortgages, those mortgages are secured by both the surface and subsurface portions of a particular plot of land, plus all buildings and fixtures on the land at the time the mortgage was originated and any buildings or fixtures that are erected in the future.⁹ A standard term of most mortgages, including Fannie Mae or Freddie Mac's uniform mortgage documents, prohibits a borrower from selling any portion of the mortgaged property without the prior approval of the lender.¹⁰ Such a provision is intended to protect the property interests that lenders acquire when they enter into a mortgage loan. Leasing the rights to a property's subsurface minerals without the approval of the lender generally will be in violation of this mortgage term.¹¹ Because Fannie Mae and Freddie Mac

(...continued)

<https://www.efanniemae.com/sf/formsdocs/documents/secinstruments/> and <http://www.freddiemac.com/uniform/unifsecurity.html#highlights>.

⁷ See, e.g., Fannie Mae Single Family 2011 Selling Guide § A2-2.1, pub. Aug. 30, 2011, available at <https://www.efanniemae.com/sf/guides/ssg/sgpdf.jsp> ("By submitting any loan to Fannie Mae under any execution, including MBS, whole mortgage loan, or a participation pool mortgage to Fannie Mae as a whole loan, the lender represents, warrants, and agrees that all right, title, and interest in the mortgage loan is sold, transferred, set over, and otherwise conveyed by the lender to Fannie Mae as of the date Fannie Mae funds the purchase proceeds.") and Freddie Mac Single-Family Seller/Servicer Guide § 22.27, available via the AllRegs link at <http://www.freddiemac.com/sell/guide/> ("The Seller must have the full legal authority, must have taken all action required by law and by its organizational documents and must have obtained any consents required, to sell, transfer and assign a Mortgage to Freddie Mac free and clear of all claims, security interests or other encumbrances. The Note and the Security Instrument must be enforceable by the Seller. Transfer of the Note and the Security Instrument in whole or in part to any subsequent purchaser must not detract from their enforceability.").

⁸ See, generally, Fannie Mae Single Family 2011 Servicing Guide, pub. June 10, 2011, available at <https://www.efanniemae.com/sf/guides/ssg/svcgpdf.jsp> and Freddie Mac Single-Family Seller/Servicer Guide, available via the AllRegs link at <http://www.freddiemac.com/sell/guide/>.

⁹ See, e.g., Fannie Mae/Freddie Mac Single Family Uniform New York Mortgage, Form 3033, p. 3, available at <https://www.efanniemae.com/sf/formsdocs/documents/secinstruments/> and <http://www.freddiemac.com/uniform/unifsecurity.html#highlights>. See, also, N.Y. Pub. Auth. Law § 351 ("The term '**real property**' shall mean lands, waters, rights in lands or waters, structures, franchises and interests in land, including lands under water, riparian rights, **property rights in air space and/or subsurface space** and any and all other things and rights usually included within the said term and includes also any and all interests in such property less than full title, such as easements permanent or temporary, rights-of-way, uses, leases, licenses and all other incorporeal hereditaments and every estate, interest or right legal or equitable.") (emphasis added).

¹⁰ See, e.g., Fannie Mae/Freddie Mac Single Family Uniform New York Mortgage, Form 3033, p. 14, available at <https://www.efanniemae.com/sf/formsdocs/documents/secinstruments/> and <http://www.freddiemac.com/uniform/unifsecurity.html#highlights> ("Lender may require Immediate Payment in Full of all Sums Secured by this Security Instrument if all or any part of the Property, or if any right in the Property, is sold or transferred without Lender's prior written permission.").

¹¹ It also may violate other provisions of the mortgage agreement, such as provisions that require borrowers to maintain and (continued...)

generally acquire all of the rights that were held by a lender of a mortgage they purchase,¹² entering into an oil, gas, or mineral lease on a property that is subject to a mortgage owned or guaranteed by Fannie Mae or Freddie Mac without prior approval generally will be considered an act of default under the mortgage. Such a violation could trigger certain Fannie Mae and Freddie Mac rights pursuant to the mortgage such as the power to demand the immediate payment of the full amount owed on the mortgage and the right to foreclose on the property if the borrower is unable to pay in full.¹³ Additional remedies also may be available to the GSEs under state law depending on the facts and circumstances. For example, the GSEs may be able to successfully raise trespass claims or receive damages for physical damage caused to the property as a result of a drilling, excavation, or exploration activities that occur subject to an oil, gas, or mineral lease entered into without Fannie Mae or Freddie Mac's approval.¹⁴ For these reasons, oil and gas companies may choose to perform title searches on properties before entering into leases. A title search will help them determine the existence of outstanding mortgages or other interests in the property that could negatively impact the property rights they are seeking to acquire, as well as the identities of parties whose approval they would need to enter into a binding and enforceable oil, gas, or mineral lease.

There may be circumstances under which Fannie Mae and Freddie Mac would be willing to relinquish the property rights that they hold in order for an oil, gas, or mineral lease to be duly executed on the same land. Both Fannie Mae and Freddie Mac's uniform mortgages only prohibit borrowers from selling any portion of the mortgaged property without their prior approval.¹⁵ Thus, borrowers of mortgages owned or guaranteed by Fannie Mae and Freddie Mac may request their approval for the creation of an oil, gas, or mineral lease on a property to which they own or guarantee a mortgage.

Fannie Mae provides extensive guidance regarding the procedures that borrowers should follow to make such a request and standards that servicers should apply to determine whether or not to approve such a request on behalf of the GSE. Fannie Mae's Single Family 2011 Servicer Guide (Fannie Mae Servicer Guide) states:

The security property for a mortgage loan consists of the land, all improvement erected on the land (including any replacements or additions erected after the origination of the mortgage loan), and all easements, appurtenances, and fixtures (including, in some cases, personal property) that are part of the property or the improvements. Occasionally, certain events may occur that make it necessary or desirable to release all or a portion of the security for the mortgage loan, or the release may be requested by a borrower. A request for a release of security can involve ... a release of oil, gas, or mineral rights to the property¹⁶

(...continued)

protect the property from damage or that prohibit borrowers from placing or allowing others to use or store hazardous substances on the property. See, e.g., Fannie Mae/Freddie Mac Single Family Uniform New York Mortgage, Form 3033, pp. 16-17, available at: <https://www.efanniemae.com/sf/formsdocs/documents/secinstruments/> and <http://www.freddiemac.com/uniform/unifsecurity.html#highlights>.

¹² See *supra* note 7.

¹³ The amount of time that a borrower would have to pay off the mortgage, any rights available to the borrower to halt the demand, and the procedures and potential defenses to a foreclosure action vary according to state law and the specific terms of the relevant mortgage.

¹⁴ See, generally, Powell on Real Prop. § 64A.01.

¹⁵ See, e.g., Fannie Mae/Freddie Mac Single Family Uniform New York Mortgage, Form 3033, p. 14, available at: <https://www.efanniemae.com/sf/formsdocs/documents/secinstruments/> and <http://www.freddiemac.com/uniform/unifsecurity.html#highlights>.

¹⁶ Fannie Mae Single Family 2011 Servicing Guide ch. 7 (intro.), pub. June 10, 2011, available at <https://www.efanniemae.com/sf/guides/ssg/svcgpdf.jsp>.

The Fannie Mae Servicer Guide further explains that borrowers who would like to request such a release must complete a standard form¹⁷ and submit it to the mortgage servicer along with a copy of the proposed oil, gas, or mineral lease agreement. The Fannie Mae Servicer Guide explicitly provides mortgage servicers with the authority to approve the requested release on behalf of the GSE if such a lease “is customary in the area and the exercise of the lease will not have a material effect on the value of the property, prevent use of the property as a residence, or expose the residents to serious health or safety hazards.” The Fannie Mae Servicer Guide elaborates on how a servicer should make this determination.¹⁸ It also provides a list of Fannie Mae representatives that the servicer may contact to help with the decision to approve or deny the request and allows the servicer to forward the request on to these Fannie Mae representatives, rather than make the decision itself.¹⁹ The servicer also may be required to obtain approval from third parties whose interests may be impacted by the release, such as mortgage insurers.²⁰

Unlike Fannie Mae, Freddie Mac does not provide explicit guidance in its Single-Family Seller/Service Guide on how borrowers should request a release of security for the purposes of an oil, gas, or mineral lease or how such requests should be approved or denied. However, Freddie Mac servicers are under the general requirement to promptly respond to borrower inquiries about their mortgage, which would seem to include requests to release security interests to duly execute oil, gas, or mineral leases.²¹ Freddie Mac’s property and financial interests are substantially similar to those of Fannie Mae, so Freddie Mac likely would apply similar, though not necessarily identical, considerations as Fannie Mae to any request to release part of its security interests for an oil, gas, or mineral lease.

¹⁷ Fannie Mae Application for Release of Security, Form 236, available at <https://www.efanniemae.com/sf/formsdocs/forms/236.jsp>.

¹⁸ Fannie Mae 2011 Single Family Servicer Guide § 702, pub. June 10, 2011, available at <https://www.efanniemae.com/sf/guides/ssg/svcgpdf.jsp>.

¹⁹ Fannie Mae 2011 Single Family Servicer Guide ch. 7 (intro.) and § 702, pub. June 10, 2011, available at <https://www.efanniemae.com/sf/guides/ssg/svcgpdf.jsp>.

²⁰ Fannie Mae Single Family 2011 Servicing Guide ch. 7 (intro.), pub. June 10, 2011, available at <https://www.efanniemae.com/sf/guides/ssg/svcgpdf.jsp>.

²¹ Freddie Mac Single-Family Seller/Servicer Guide § 2.11, available via the AllRegs link at <http://www.freddiemac.com/sell/guide/>.

Gas and Oil Leases as they relate to Residential Lending

By Tompkins County Council Of Governments (TCCOG) - Task Force on Gas Drilling
Assessment and Land Valuation Subcommittee

Primary Contact: Carol Chock, Tompkins County Legislator and Subcommittee Chair

Principal author: Greg May, VP, Tompkins Trust Company Residential Lending

Collaborators include realtors, appraisers, real estate attorneys and lenders

NOTICE

The information in this presentation relates to the impact of gas and/or oil leases on residential mortgage lending. Consult with a Real Estate Attorney to address specific issues as they relate to a specific property or lease.

No opinion is being expressed or implied on the practice of leasing mineral rights, environmental impact or regulations surrounding gas and/or oil leases (referred to as gas leases or leases hereafter) by the members or presenters of these findings. The issues listed are summarized to highlight potential conflicts for residential mortgage lending in an effort to facilitate consideration of these issues.

Any use of this document or summary points must include the above notice.

- 1) Surface or sub surface rights within 200 feet of a residential structure would not be acceptable for conventional financing in the secondary market per Fannie Mae and Freddie Mac requirements published in their manuals. (Freddie Mac manual section 39.4, various subsections)
- 2) Title insurance is a standard requirement for residential mortgage loans and the secondary mortgage market. In a standard NYS title insurance policy, Schedule B specifically states that it does not insure against loss or damage for a number of reasons. Specific exceptions from coverage include:
 - a. if any structure on the property exists that is over 35 feet tall,
 - b. if the property is used to store any material, machinery or supplies of any nature except during the course of construction,
 - c. if the property is used for any commercial purpose except a professional office in the home.

If standard title insurance is relied upon to secure traditional mortgage financing for a property with a gas lease, the coverage is ineffective to protect against these and other activities authorized and commonly undertaken pursuant to a gas lease.

- 3) There is not a cost effective or reliable way to determine if a residential property has a gas lease to allow an Appraiser to establish an appraised value based on comparable sales of similar properties. To determine if a property (a comparable) has a gas lease, a title examination of each property would be necessary and add significant cost to each transaction.

- 4) Since there is limited historical data on sales of properties with leases, NYS licensed Appraisers are not able to determine or consider the impact on value or marketability if a gas lease exists as noted in item #3 above. Since the impact on value and marketability can not be determined, the Appraisal would not meet traditional secondary market requirements or commonly accepted lender requirements.
- 5) Section 18 of the standard Fannie Mae/Freddie Mac Mortgage prohibits transfer or sale of any portion of, or rights in, a mortgaged property without prior written consent of the lender and/or Fannie Mae/Freddie Mac. Grant of a gas lease is the transfer of rights in the mortgaged property. This mortgage security document is the commonly accepted and used document for lenders.
- 6) Section 21 of the standard Fannie Mae/Freddie Mac Mortgage prohibits environmental hazardous substances, specifically naming gas, from being stored, used, disposed of, discharged or released on the mortgaged property. The borrower also agrees to not allow another entity to do any of these prohibited actions on the mortgaged property. This mortgage security document is the commonly accepted and used document for lenders.
- 7) Traditional home owners insurance (fire insurance) generally would exclude coverage if a property has active commercial operations occurring on the property. In addition, some companies are now adding "pollution exclusion" language that would not cover seepage or leakage damage coverage as a result of commercial activities.
- 8) Surface or sub surface rights within 300 feet of a residential structure OR within 300 feet of property boundary lines would not be acceptable for FHA (Department of HUD) financing. HUD Minimum Property Standards, section 4150.2.
- 9) Standard gas leases provide the gas company with permanent easements on the property to drill, maintain, operate, plug, use roads, electric, construct pipelines...etc. Such rights survive the term of the lease and would impact the ability for potential future owners to secure traditional financing for the reasons noted above.
- 10) Gas leases are, at times, pledged by the holder of the lease, to secure financing for the company with a lien being placed on the property's sub-surface rights. These liens may impact the ability for a homeowner to sell or use the property as security for traditional financing since many municipalities and title companies are not able to separate surface and sub-surface ownership and liens in an effective way. A standard title search that shows such liens would create confusion or delay in distinguishing between the homeowners and gas companies rights in the property.
- 11) Lenders are responsible to warrant that loans they sell in the secondary mortgage market meet investor requirements. If a lease exists on a property, it would be difficult for a lender to warrant the loan meets all investor requirements.

Gas and Oil Leases as they relate to Residential Lending

by Greg May

VP – Residential Mortgage Lending Tompkins Trust Company

SUMMARY POINTS UPDATED AUGUST 19, 2011

NOTICE

The information in this presentation is general in nature and is to be used only for informational purposes. Consult with a Real Estate Attorney to address specific issues as they relate to a specific property or lease. No opinion is being expressed or implied on the practice of leasing mineral rights, environmental impact or regulations surrounding gas and oil leases.

Summary Points

with notes if NYS specific or if it may impact other states

- 1) There is not a cost effective or reliable way to determine if a residential property has a gas lease to allow an Appraiser to establish an appraised value. Title examinations of each property and neighboring properties would add significant cost to each transaction in NYS. *This issue impacts all areas.*
- 2) Surface or sub surface rights within 200 feet of a residential structure would not be acceptable for conventional financing in the Secondary market. *This issue impacts all areas.*
- 3) NYS title insurance gas endorsements specifically void title insurance coverage if the premises are used for any commercial venture. *This issue may impact other states.*
- 4) Lenders are responsible to warrant several items to the investor in the Secondary market that can not be done leaving lenders with significant liability. *This issue impacts all areas.*
- 5) NYS licensed Appraisers are not able to consider the impact on value if a gas lease exists as noted in item #1 above and hence their Appraisals would not meet Secondary market requirements. *This issue may impact other states.*
- 6) Surface or sub surface rights within 300 feet of a residential structure OR within 300 feet of property boundary lines would not be acceptable for FHA (Department of HUD) financing. *This issue impacts all areas.*
- 7) Section 18 of the standard Fannie Mae/Freddie Mac Mortgage prohibits transfer or sale of any portion of a mortgaged property without prior written consent of the lender and/or Fannie Mae/Freddie Mac. *This issue impacts all areas.*
- 8) Section 21 of the standard Fannie Mae/Freddie Mac Mortgage prohibits environmental hazardous substances, specifically naming gas, from being stored, used, disposed of, discharged or released on the mortgaged property. The borrower also agreed to not allow any other entity to do any of these prohibited actions on the mortgaged property. *This issue impacts all areas.*

Summary Points
Gas and Oil Leases as they relate to Residential Lending
Greg May, VP, Residential Mortgage Lending – Tompkins Trust Company
Updated August 19, 2011

For purposes of this discussion, I will utilize the word “lender” or “bank” to refer to traditional banks as well as credit unions and mortgage bankers.

In general terms, banking regulators on a federal and state level monitor how much a bank has in lending compared to deposits and assets. The regulators also establish certain requirements for bank liquidity, funds not loaned or pledged in some fashion, in an effort to provide for a sound financial system. The same holds true for credit unions and their regulators.

In an effort to provide a steady and potentially unlimited source of funding for residential mortgage loans, the secondary market was established and remains one of the only consistent methods for lenders to provide affordable and consistent funding for residential mortgage lending. Most lenders utilize secondary market standards for underwriting and property review. These standards allow a lender to sell loans to Fannie Mae, Freddie Mac or other investors because of the known and accepted standards and a track record of performance.

In addition, to secure the FHA Insurance or VA Guarantee, these government programs have established similar underwriting and minimum property standards that are required to be followed.

Without the mortgage secondary market, banks would only be able to lend based on the assets (or deposits) they have available. Once those assets are fully loaned, they would not be able to lend additional funds until one of the current loans were paid in full. With the secondary market, banks are able to lend, sell the mortgage to Fannie Mae, Freddie Mac or another investor and then relend those same funds to another borrower. This process provides for a consistent, equitable and affordable method for borrowers to purchase homes.

The issue of leased land to gas or oil companies creates challenges for banks. Below is a summary of those challenges linked to the numbers noted on page one:

- 1) Secondary market requirements establish property value for residential properties by comparable sales (similar properties that have sold within a short time and distance from the subject). Since there is not a reliable mapping system to identify properties with gas leases, the appraiser is not able to identify potential comparable properties. In addition, many gas leases only have a memorandum of lease recorded which do not provide the necessary details to compare leases.
This situation may also exist in other areas where separating of surface and sub surface rights has not been common. *The traditional method of transferring title to real estate is to include all rights for the “quiet enjoyment” of the owner. The general description is that the property is a “wedge extending from the center of the earth to the heavens above.”*
- 2) Secondary market requirements state (Freddie Mac guide 39.4 (i)) – ***Exists in all areas:***
 - a. Exceptions for outstanding oil, gas, water or mineral rights are **acceptable if commonly granted** by private institutional Mortgage investors in the area where the Mortgaged Premises are located, and:
 - i) The exercise of such rights will not result in damage to the Mortgaged Premises or impairment of the use or marketability of the Mortgaged Premises for

residential purposes and **there is no right of surface or subsurface entry within 200 feet of the residential structure**, or

- ii) There is a comprehensive endorsement to the title insurance policy that affirmatively insures the lender against damage or loss due to the exercise of such rights
- 3) A title insurance comprehensive endorsement in NYS (may exist in other areas based on state insurance regulations) contains the following restrictions which would likely result in the title insurance coverage being void if they occurred. Typical gas leases allow gas companies to perform these activities. The loss or inability to provide title insurance would restrict lending on properties with gas leases if title insurance was not available.
- a. No structure shall be erected on the premises which exceeds three (3) stories or thirty five (35) feet in height...
 - b. The premises shall not be used for the storage of any material, machinery, equipment or supplies of any kind...
 - c. The premises shall not be used for any commercial purpose of any kind...
- 4) Secondary Market requirements state (Freddie Mac guide 39.4 (m)) that lenders must warrant the following, each of which would not be possible with gas/oil leases in place. These leases restrict use of the property by the borrower and there is not reliable data to support what impact a gas lease has on value or marketability - Exists in all areas:
- a. ...must not interfere with the use and enjoyment of any present or proposed improvements on the mortgaged premises or with the use and enjoyment of the balance of the Mortgage Premises not occupied by improvements.
 - b. ...must not affect the marketability of the Mortgaged Premises
 - c. ...must have no or minimal effect on the value of the Mortgaged Premises
 - d. ...must be commonly acceptable to private institutional Mortgage investors in the area...
- Banks could not warrant any of these issues due to lack of comparable sales and details regarding gas leases attached to other properties.
- 5) Secondary market requirements state (Freddie Mac guide 44.3 (d)) regarding any detrimental conditions such as underground mines... "The Appraiser must also consider the effect of such conditions in estimating the subject property's market value and/or marketability." Since there is not any way to determine if other gas/oil leases exist, the Appraiser can not fulfill this requirement. Exists in all areas.
- 6) FHA requirements are similar in all forms to the above with the exception that FHA requires **there is no right of surface or subsurface entry within 300 feet of the residential structure OR within 300 feet of the property boundary lines.** Exists in all areas.
- 7) Section 18 of the standard Fannie Mae/Freddie Mac Mortgage document prohibits the sale or transfer of any portion of the property without the Lender's prior written consent. If a borrower transfers mineral rights, the loan is technically in default under the terms of the Mortgage. Exists in all areas.

18. Agreements about Lender's Rights If the Property Is Sold or Transferred. Lender may require Immediate Payment in Full of all Sums Secured by this Security Instrument if all or any part of the Property, or if any right in the Property, is sold or transferred without Lender's prior written permission....

- 8) Section 21 of the standard Fannie Mae/Freddie Mac Mortgage document prohibits hazardous substances (one of those substances specifically defined as gas) to be present, permitted on the property or be stored, disposed of or released on the property and that the borrower will not allow anyone else to do so. If a borrower allows or permits gas on the mortgaged property, the loan is technically in default under the terms of the Mortgage. Exists in all areas.

21. Continuation of Borrower's Obligations to Maintain and Protect the Property. The federal laws and the laws of New York State that relate to health, safety or environmental protection are called "Environmental Law." Environmental Law classifies certain substances as toxic or hazardous. There are other substances that are considered hazardous for purposes of this Section 21. These substances are gasoline, kerosene, other flammable or toxic petroleum products.....defined as toxic or hazardous by Environmental Law and the substances considered hazardous for purposes of this Section 21 are called "Hazardous Substances."..... I will not do anything affecting the Property that violates Environmental Law, and I will not allow anyone else to do so. I will not cause or permit Hazardous Substances to be present on the Property. I will not use or store Hazardous Substances on the Property. I also will not dispose of Hazardous Substances on the Property, or release any Hazardous Substance on the Property, and I will not allow anyone else to do so. I also will not do, nor allow anyone else to do, anything affecting the Property that: (a) is in violation of any Environmental Law; (b) creates an Environmental Condition; or (c) which, due to the presence, use, or release of a Hazardous Substance, creates a condition that adversely affects the value of the Property. The promises in this paragraph do not apply to the presence, use, or storage on the Property of small quantities of Hazardous Substances that are generally recognized as appropriate for normal residential use and maintenance of the Property

CONCLUSION:

While the secondary market and FHA do not specifically prohibit gas and/or oil leases, the following items, as addressed above, cause a high level of concern for prudent banks and lenders.

- 1) Comparable sales, subject to gas/oil leases, are not able to be documented reliably at this time by NYS licensed appraisers. Many of the leases are recorded only in memorandum form so it is impossible for the appraiser to be able to review comparable leases and perform the duties and responsibilities of the Appraisal standards.
- 2) Historical data to support value and marketability is not able to be documented reliably at this time by NYS licensed appraisers. Tax roles, assessment roles, multiple listing databases and other forms of determining property sales have not and currently do not track the existence or terms of gas/oil leases. Therefore, the impact, either positive or negative, on value and marketability is not able to be documented reliably at this time by NYS licensed appraisers.
- 3) Since the appraisers can not supply the comparable sales, historical data and conclusive impact on value and/or marketability, the appraisal report they produce would not meet secondary market minimum standards, banking regulatory standards or NYS Appraisal standards. That would leave the lender with exceptional liability to warrant for value and marketability that the appraiser has not documented with data as being supported by comparable sales, historical data, etc.
- 4) Gas/oil leases are generally NOT accepted by lenders such as Wells, First Place Bank, Provident

Funding, GMAC, FNCB, Fidelity, FHA, First Liberty or Bank of America. It would be difficult, if not impossible, to meet the "acceptable if commonly granted" rule.

5) The set back of 200 feet noted above means 200 feet each direction for a lot size of at least 440 x 440 or 193,600 sf or 4.48 acres...to account for the house, well, septic size...hence the need to release 5 acres from all lease rights. 1 acre = 43,264sf. 5 acres = 216,320 sf.

6) FHA loans are more commonly utilized by lower income borrowers and lower valued properties. For FHA, the set back of 300 feet noted above means 300 feet each direction for a lot size of at least 640 x 640 or 409,600 sf or 9.47 acres...to account for the house, well, septic size...hence the need to release 10 acres from all lease rights. 1 acre = 43,264sf. 10 acres = 432,640 sf. This does not address the 300 feet from property boundary lines issue and will related to #7 below.

7) If the property is set closer to the road or a property boundary than the 200 or 300 ft setback, a neighboring property that has a gas lease may prevent the un-leased property from being able to be financed. A central reporting database on all gas leases mapped is needed to allow appraisers to determine if a neighboring property has a gas lease. Currently the only method to determine if a gas lease exists is to have an attorney do a title review on surrounding properties that would add significant expense and time delays to each residential transaction.

8) The standard and commonly utilized mortgage document specifically prohibits the sale or transfer of any rights to a mortgaged property without the prior written consent of the Lender. It would be highly unusual for a lender to agree to the sale of mineral or gas rights. Should a borrower sell mineral or gas rights, it would be a technical default under the terms of the mortgage.

9) The standard and commonly utilized mortgage document specifically prohibits the hazardous material to be present or permitted on a mortgaged property. Should a borrower allow or permit gas, in this commercial quantity, to exist on a mortgaged property, it would be a technical default under the terms of the mortgage.

ELISABETH N. RADOW, ESQ.

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August 11, 2011

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Dear Ms. Cosgrove, Mr. DeMarco, Mr. Pollard and Mr. von Seggern:

For more than 25 years I have practiced law in the area of real estate development and real estate finance. In addition, I currently chair the hydraulic fracturing committee for the League of Women Voters of New York State. I am contacting you to begin what I hope will develop into a dialog addressing the serious potential nationwide impact on the secondary mortgage market from high volume horizontal hydraulic fracturing for natural-methane-gas across the 34 (or 35) continental United States with underground shale deposits (See attached Map).

As you know, approximately ninety (90%) of all residential mortgages are sold in the secondary mortgage market. According to the FHFA website, FHFA's mission is to provide effective supervision, regulation and housing mission oversight over Fannie Mae and Freddie Mac and Federal Home Loan Banks to promote their safety and soundness, support housing finance and affordable housing and support a stable and liquid mortgage market. As of September 2010, according to FHFA, the combined debt obligations of these entities totaled \$6.7 trillion dollars, with Fannie Mae and Freddie Mac guarantying 65% of new mortgage originations. Freddie Mac

(and similarly Fannie Mae) is charged with providing liquidity in the residential mortgage market and the recovery of the housing market and U.S. economy. The Federal Home Loan Bank (FHLB) System also plays an important role in bringing the debt market to Main Street America.

Because of the direct relationship Freddie Mac and Fannie Mae have to the expansive secondary residential mortgage market, the important role of the FHLB System, the fiduciary responsibility of FHFA as conservator to the American taxpayer and the fact that horizontal hydraulic fracturing is underway or poised to occur nationwide involving potentially millions of residential families, I am writing to share the results of my research which links natural gas extraction through horizontal hydraulic fracturing to concerns over the future economic health of the secondary mortgage market. Assuming only 10% of the secondary mortgage market portfolio includes residential properties subject to drilling activity, this amounts to \$670 billion; assuming the number is only 1%, this amounts to \$67 billion. With drilling currently and in the future intended to potentially include up to 35 of the lower 48 states, this estimate is potentially a *gross underestimate* of the total secondary residential mortgage market portfolio at issue.

All residential mortgages (whether or not sold in the secondary mortgage market) contain a provision prohibiting hazardous activity and the release of hazardous substances (hereinafter collectively referred to as “hazardous activity;” whether by the borrower or by third parties) on or about the mortgaged property to avoid adverse environmental outcomes or other impairment to the value of the collateral. In addition, the secondary mortgage market establishes guidelines for appraisers and underwriters that limit or otherwise prohibit hazardous activity on the property deemed acceptable for purchase in the secondary mortgage market so as to preserve the integrity of the mortgage portfolio’s value and marketability. In addition, mortgagee’s title insurance policies have their own limits on coverage which exclude from coverage certain types of commercial or hazardous activity. Based alone upon the mortgage provision prohibiting the conduct of hazardous activity on the mortgaged property, by merely entering into a drilling lease (even before the drilling begins) a residential property owner can be deemed in default of the mortgage. Once the drilling commences, the borrower puts the mortgaged collateral at risk.

Drilling companies derive the right to drill underneath residential (and non-residential) property in the following three ways, any of which could involve residential property owners whose mortgages are tranching in secondary mortgage market portfolios:

- * by deed to the subsurface rights situated below the fee estate;
- * by lease agreement with the fee owner; and
- * by compulsory integration (or a similar label) which involves government action that forces a property owner seeking exclusion from drilling activity from below its fee estate into a drilling pool if the drilling company otherwise has control of a statutorily prescribed percentage of land. This action is allowed by statute in more than thirty-five states.

Drilling companies that derive the right to drill through subsurface deeds or by compulsory integration do not voluntarily enter into agreements with property owners pursuant to which they assume the risks and indemnify the fee owner for property damage resulting from drilling. An

opportunity to obtain an indemnification with respect to such risks might arise if the driller approaches the surface/fee owner for a grant of surface entry rights the driller does not otherwise have. (NOTE: Statutes permitting compulsory integration may excuse the surface/fee property owner forced into the drilling pool from responsibility for property damage; such statutes do not, however, expressly make the driller responsible. Therefore, litigation would be required to achieve this end). Drilling leases represent the one example of the three examples mentioned above in which the surface/fee property owner can negotiate to make the drilling company legally responsible for property damage caused by the drilling activity. By involving a knowledgeable attorney, protections can be negotiated into the drilling lease. A review of a multitude of drilling leases (and conversations with law colleagues and members of leasing advocacy groups who have likewise reviewed drilling leases) reveals that the property related risks associated with drilling and the responsibility for remediating the impacts of drilling (except in very rare cases) remains with the fee owner; (potentially, your borrower) even though the fee owner/borrower has no control over the drilling activity itself. Simply put, drilling leases do not contain indemnities or other protective coverage from the drilling company's hazardous activity. Even assuming an indemnity does exist in a portion of the nation's drilling leases, in the event of property damage, the fee owner (again, potentially, your borrower) would still have to successfully litigate against the well funded gas drilling company for reimbursement, something many residential property owners are not financially or mentally prepared to handle. Further, it is unlikely that your current borrowers who likewise have existing or planned drilling activity on and underneath their mortgaged property know they are in violation of their mortgage covenant against hazardous activity, or have potentially invalidated the mortgagee title insurance coverage. A post funding quality review alert, which could be instituted as part of the post funding quality review referenced on the Freddie Mac website, could operate to put such borrowers on notice.

About the drilling process:

Hydraulic fracturing was exempted from federal oversight by amendments to federal environmental laws in 2005; it is therefore unregulated (with few exceptions) at the federal and state levels (New York State is in the process of putting regulations in place; other states where drilling is underway are playing catch up in response to property damage and adverse environmental impacts experienced as a result of under-regulation and lack of oversight and enforcement). Hydraulic fracturing (or fracking) mixes millions of gallons of water with silica sand, brine and any of a number of undisclosed chemicals (including diesel fuel) identified to include toxins and carcinogens among them, which are injected into the well at enough pressure sufficient to blow a hole in a sidewalk; but in this practice the intent is to prop open the mile deep shale fissures to free the trapped methane gas. Waste water which results from the fracking includes concentrated levels of these toxic chemicals, sludge and naturally occurring radioactive material (such a uranium, radium 226 and radon) unleashed from the fracking, all of which requires safe waste treatment to prevent contamination to air, water and soil. Methane gas released from the shale but not captured for production can accumulate with the risk of on-site explosions. The full lifecycle of natural gas extraction (not just the drilling) includes hazardous activity from beginning to end, including diesel fueled tankers traveling along narrow rural roads

and on the property itself, lugging millions of gallons of the chemically treated water going in and high volumes of contaminated, toxic waste coming out, use of heavy machinery situated on the surface of the property to facilitate the highly intense drilling, extraction of highly flammable methane gas from beneath the property and the potential for numerous adverse impacts arising out of any and all of the foregoing.

Residential mortgages which are subject to drilling activity are at of risk property damage that can impair the value of the secondary mortgage market portfolio into which they are tranced, particularly if the mortgage portfolio contains an aggregate of similarly encumbered properties. Further, to the extent a residential property owner suffers property damage and impaired property value from drilling, such as well water contamination, an impaired structure from the intense underground activity, a methane gas explosion or other drilling related event, the institutional lender/Fannie Mae/Freddie Mac may find itself with residential property a borrower decides is no longer suitable for the borrower's use, which then becomes abandoned and ends up as the lender's responsibility. If history repeats itself, the financial responsibility for these troubled assets could become the taxpayer's responsibility.

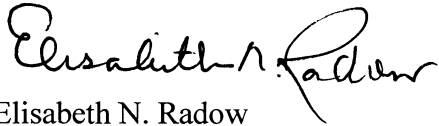
What about new mortgages?

Institutional lenders such as Bank of America, Wells Fargo, First Niagara, Tompkins County Trust and others are now limiting the residential mortgages they will place on properties subject to drilling by imposing a sizable buffer zone between the residence and the drill site (assuming such a buffer zone exists) or not granting the mortgage at all. This policy can be expected to expand to include more lenders nationwide once the lending institutions connect the "no hazardous activity" clause in the mortgage (and the other previously mentioned lending limitations) with the hazardous drilling activity going on (or intended) at the mortgaged property and the resulting environmental degradation and property damage involving people's homes which is reported more and more frequently in the news. If residential property owners cannot mortgage their property, they cannot sell their property (this assumes the typical purchaser requires mortgage financing to fund a home purchase). Taken a step further, to the extent people cannot obtain a residential mortgage loan in regions where this unconventional drilling is underway or is planned, the construction industry is unlikely to build in that region. Why build where you can't sell? A real estate broker living in Pennsylvania where active drilling has transformed the community landscape told me the sales market is non-existent; she closed her business. **The challenge presented is how a nation with \$6.7 trillion in residential secondary mortgage market debt that measures economic recovery by construction starts can likewise accommodate this hazardous drilling activity across up to 35 states involving an unknown quantity of this residential mortgage collateral.** Further, to the extent mortgages are issued on properties in areas where drilling has not yet begun but underneath which drilling may occur in the future, it will become critical for Freddie Mac, Fannie Mae and the FHLB System (with FHFA oversight) to follow up on these properties regularly, after the funding occurs, to ensure the continued integrity of their value and marketability.

August 11, 2011
Page 5

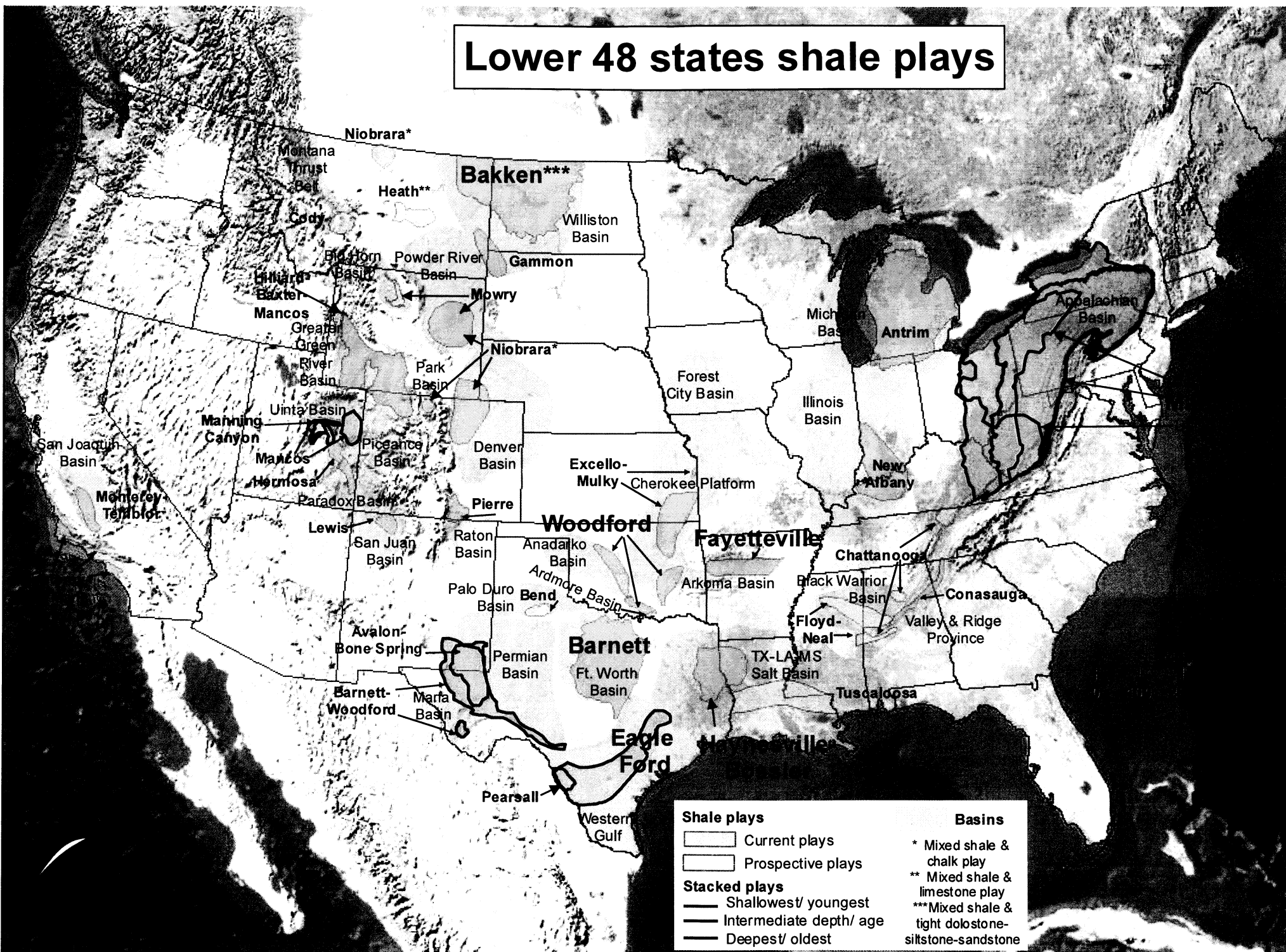
In the fall I will have an article published that addresses the connection between this unconventional drilling lifecycle and impacts on property ownership including the connection drawn here with the secondary residential mortgage market. My goal, in connection with this upcoming publication and my continuing research in this area, is to make contact with you and any of the appropriate people in the government, at Freddie Mac/Fannie Mae and the Council on Federal Home Loan Banks that you recommend to further discuss my findings and my proposed recommendations (which I have not gone into detail about in this letter), the goal of which is to help avoid the potential serious adverse impacts outlined here and to bolster America's economic recovery. Thank you for taking the time to read this. I look forward to speaking with you.

Sincerely,

A handwritten signature in black ink, reading "Elisabeth N. Radow". The signature is fluid and cursive, with the first name "Elisabeth" being more prominent and the last name "Radow" following in a similar style. The initials "N." are written in a smaller, more formal script between the first and last names.

Elisabeth N. Radow

Lower 48 states shale plays



Source: Energy Information Administration based on data from various published studies.
 Updated: May 2, 2011

SEPTEMBER NEWSLETTER



Linda A. Hirvonen

CRS, GRI, Green, CIPS Candidate
Notary Public
Licensed RE Associate Broker
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Ithaca, NY 14850

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After all, it's not going
to matter how many
breaths you took,
but
how many moments
took your breath away.



"The Best in the Business"

Dear Friends,

Well, the debate over gas drilling continues. We read about it in the newspapers, we hear about it on the radio and we watch it on the television. The DEC has just released a 1,537-page draft review of natural gas drilling technique that examines both the economic benefit to the communities and the impact on the state's drinking water and environment. I, for one, will never be able to read it in its entirety, but I try to stay abreast of this issue because it has direct implications on home ownership.

I read as much as I can about it, I talk to people, and I go to seminars related to it. Yes, it is a wonderful natural resource; yes, current methods have had a disastrous effect on drinking water in some areas; yes, it can have a costly effect on our infrastructure, but more important than all of these, to me, is how it inhibits your rights as homeowners.

When you buy a home or a parcel of land you are making one of the biggest investments of your life and you want to know that you own every stick and stone, board and brick of it. When a "landman", the person hired by the gas company to get leases on as much land as possible, knocks on your door, promises you money to sign and riches to come, it sounds wonderful, but the minute you sign on the dotted line you do not own the rights to all the sticks and stones, boards and bricks. You do not own the complete "bundle of sticks" that were given to you when you purchased the property. You have given some of the sticks away. In essence, someone else is a part-owner of your property.

When you no longer hold full title to the land it is difficult to get a mortgage. When you decide to sell your house you may find it difficult to do so because many banks, here and elsewhere, will not mortgage properties with gas leases which, in turn, limits the number of buyers willing and able to buy your property. Plus, the uncertainty of whether or not a large pipeline will eventually be running across your land, or roads to access wells will be running across your property, make people think twice before they offer to buy your home.

What can you do if a landman knocks on your door? Don't sign anything until you have read every word of the lease and understand it and then call an attorney with some experience in this field to read it again and explain it to you. All leases are written in favor of the gas company, however, you can cross out anything you and your attorney feel is not in your best interest

(particularly the sentence that says the gas company can automatically extend the lease for 3-5 years without consulting you). And, again, I cannot stress enough how important it is to consult with an attorney before signing it.

What can you do if you have already signed a gas lease? If you understand it and are happy with it, nothing. If you think you are going to put your house on the market within the term of the lease, consult an attorney. Attorneys are starting to see positive results when they request the gas companies to release the surface rights on plots up to 5 acres. The companies still have the right to drill beneath the surface but your right, or your Buyer's right, to the "quiet enjoyment" of the property remains intact.

We have seen many changes in just the last year in how this issue is viewed and handled. Some municipalities such as Dryden and Trumansburg have banned gas drilling based on their zoning regulations. Banks are happy with that and willing to grant mortgages in those areas. Residents are becoming more pro-active and are putting more and more pressure on the state to be involved. There will be 4 public hearings in November in different parts of the state on the newly released DEC document, dates to be announced in October.

My wish is that you will all stay informed on this issue so you can do what's best for you both now and in the future. You are the only ones who can decide whether it's right for you to sign a lease or not, but if you decide to sign, do it with the full understanding of what you're signing, full awareness of how it could impact you in the future, and, most importantly, with the guidance of an attorney.

Stay well and be happy,



Linda A. Hirvonen



It's a healthy way to move

2011

SEPTEMBER NEWSLETTER



Linda A. Hirvonen

CRS, GRI, Green, CIPS Candidate
Notary Public

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Stay well and be happy,



Linda A. Hirvonen



Tioga Financial Seminar On Natural Gas Leasing

September 26 & 27, 2010
Owego Treadway Inn

 **Tioga State Bank** *Here For YOU...
Yesterday, Today
& Tomorrow!*

Our Goals For Today

- ② Understanding “What is Common to Our Area” as it relates to real estate property values, mortgaging a property and selling property.
- ② Understanding the difference between surface rights and sub-surface rights.
- ② Staying “in control” of YOUR money...today, tomorrow and for the future.

 **Tioga State Bank** *Here For YOU...
Yesterday, Today
& Tomorrow!*

The Impact of Gas Leases on *Real Estate*

Presented By:

Ralph Kelsey, SVP Senior Lender

George Bowen, VP Commercial Services Officer

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Yesterday, Today
& Tomorrow!*

Market Value of Real Estate With or without a gas lease

- Ⓢ **No lease**
- Ⓢ **Lease without surface rights**
- Ⓢ **Lease including surface rights**

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***Halstead, PA - 73+ acres
\$730,000 – Rights Conveyed***



***Vestal, NY - 62.5 acres
\$620,000 – Rights Conveyed***

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& Tomorrow!*

Mortgaging Property

- Ⓢ Impact on obtaining a mortgage loan
- Ⓢ Impact on existing mortgages
- Ⓢ Mortgages “sold” in the secondary market
- Ⓢ Appraisals
- Ⓢ Obtaining title insurance
- Ⓢ Private Mortgage Insurance
- Ⓢ Acreage Size

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& Tomorrow!*

Impact on obtaining a mortgage

“Quiet Enjoyment” – an appraiser’s concern

“Red Flag” – a banker’s concern

“It is truly unfortunate ...most borrowers do not realize the impact of a gas lease to the mortgage ability of the property.”

“The value and marketability of a property from a residential basis...is negatively impacted with out question or dispute.”

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Selling Property

- Ⓢ Retaining a portion or all mineral rights
- Ⓢ Sub-dividing & development lots
- Ⓢ Selling mineral rights separate from real estate sale

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Impact on Existing Properties Mortgage

“A current gas lease or a lease signed subsequent to a mortgage may constitute default.”

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Impact on Existing Properties The positives & negatives Mortgage

Gas/oil leases are generally NOT accepted by lenders such as Wells Fargo, Bank of America, Provident Funding, GMAC, etc.

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& Tomorrow!*

Selling Mortgages

Freddie Mac manual states;

- Ⓢ ***Historical data to support marketability is not able to be documented.***
- Ⓢ ***The impact ...either positive or negative ...on value or marketability is not able to be documented reliably.***

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& Tomorrow!*

Appraisals

Since the Appraisers can not supply the comparable sales, historical data and conclusive impact on the value and/or marketability, the appraisal report they produce would not meet Freddie Mac guidelines, (or Fannie Mae or Sonyma).....

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& Tomorrow!*

Federal Home Loan Bank

Exceptions for outstanding oil, gas, water or mineral rights are acceptable if commonly granted by private institutional mortgage investors and lenders in the area of Mortgaged Property, and:

- ❖ The exercise of such rights will not result in damages to the Mortgaged Property or impairment of the use or marketability of the property for residential purposes and...***
- ❖ There is no right of surface or subsurface entry within two hundred (200) feet of the residential structure or...***
- ❖ There is a comprehensive endorsement to the title insurance policy that affirmatively insures the MPF Bank against damage or loss due to the exercise of such rights.***

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Acreage

“Parcels 5 acres or less with or without an active lease at Tioga State Bank are generally not thought to be impacted by a gas lease.”

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The Good, The Bad & The Ugly

Your asset has VALUE

**ARE YOU PREPARED TO MAKE THE
RIGHT CHOICES?**

 **Tioga State Bank** *Here For YOU...
Yesterday, Today
& Tomorrow!*

Staying In Control Of Your Money

Presented By:

Anne C. Catalano, CFP
Financial Consultant

Tioga State
Investment Services

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& Tomorrow!*

**Securities & Insurance Products offered
Through LPL Financial and its affiliates.
Member FINRA/SIPC. *Not FDIC Insured
*No Bank Guarantee *May Lose Value
*Not a Deposit *Not Insured by any
Federal Government Agency. Tioga
State Bank is not a registered
broker/dealer and is not affiliated with
LPL Financial.**



Suitable Options From a Wide Range of Products and Services

- ❖ Mutual Funds
- ❖ Fee-Based Asset Management Accounts
- ❖ Annuities and other tax-sensitive investments
- ❖ Advanced estate, college, business tax & retirement planning
- ❖ Bonds, stocks & other individual securities
- ❖ Direct Investments
- ❖ Life Insurance and Long-Term care insurance
- ❖ Trust Services



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Tioga State Bank

*Here For YOU...
Yesterday, Today
& Tomorrow!*

Take Action to Protect Your Assets

In addition to ensuring that your assets are passed on to those you intend, **reducing taxes** is a major purpose of estate planning.



Tioga State Bank

*Here For YOU...
Yesterday, Today
& Tomorrow!*

Take Action to Protect Your Assets

***Preserving and protecting assets for
the care of beneficiaries***

***❖ Controlling the payout of assets to
beneficiaries.***

Tioga State
Investment Services



Tioga State Bank

*Here For YOU...
Yesterday, Today
& Tomorrow!*

Tax Deferment

***Staying in control of your
money today may allow
you to take advantage of
a number of **tax-deferred**
investments.***

Tioga State
Investment Services



Tioga State Bank

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Yesterday, Today
& Tomorrow!*

Thinking Beyond The Cookie-Cutter Products

- ❖ ***Life Insurance as an Investment***
- ❖ ***REITS-Real Estate Investment
Trusts***
- ❖ ***Tax-free Investments***

Tioga State
Investment Services

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Yesterday, Today
& Tomorrow!*

Thinking Beyond The Cookie-Cutter Products

Life Insurance

***Life insurance as a tool to
create liquidity for beneficiaries
and pay tax/debt obligations.***

Tioga State
Investment Services

 **Tioga State Bank** *Here For YOU...
Yesterday, Today
& Tomorrow!*

***Thinking Beyond The
Cookie-Cutter Products
REITS-Real Estate Investment Trusts***

***Introducing a REIT into your
investment portfolio...learning
more.....***



***Protect your future legacy by
investigating the choices you
have-see out unbiased
advice...thus staying in control
of your money!***



**Questions
And
Thank You For Spending
Time with us.**



Tioga State Bank

*Here For YOU...
Yesterday, Today
& Tomorrow!*

Gas and Oil Leases Impact on Residential Lending

by Greg May

VP – Residential Mortgage Lending Tompkins Trust Company

NOTICE

The information in this presentation is general in nature and is to be used only for informational purposes.

Consult with a Real Estate Attorney to address specific issues as they relate to a specific property or lease.

No opinion is being expressed or implied on the practice of leasing mineral rights, environmental impact or regulations surrounding gas and oil leases.

Gas and Oil Leases Impact on Residential Lending

by Greg May

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Past

- Property values considered a “guarantee” to hold or increase
- Out of town buyers, property flippers & speculative buying
- Pushed values up and created somewhat of a false market
- Lending became very liberal as economy was good

Gas and Oil Leases Impact on Residential Lending

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Present

- Economic slow down has had an impact on local real estate markets
- Includes residential properties...especially with “excess” acreage
- Lending has become more strict by legislation and regulation – more “prudent” guidelines

Gas and Oil Leases Impact on Residential Lending

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Future?

(...where did I put that crystal ball?)

- Are we in “uncharted territory”?
- What will replace manufacturing in this area?
- Will lending remain strict or become liberal again?
- Can leasing property mineral rights offer options?
- Will leasing mineral rights impact the way property is viewed/valued by a potential buyer or lender?

Gas and Oil Leases

Impact on Residential Lending

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Answers

(Again...where did I put that crystal ball?)

- We are likely in “uncharted territory”
- Service industry, high tech, gas or ?????
- Lending will likely not be as liberal as it was
- Leasing mineral rights may work in some cases but caution is needed
- Leasing mineral rights will very likely impact the way a potential buyer or lender views your property

Gas and Oil Leases Impact on Residential Lending

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Appraised Value Determination

- Appraised value methods
 - Sales: comparable sales within reasonable time and distance
 - Income: value determined based on income produced
 - Cost: value based on cost to construct
- Residential value is typically established based on the Sales method

Gas and Oil Leases

Impact on Residential Lending

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Legal Issues

- Lease: a contract where owner transfers right to possess and use the real estate typically for a specific time period
- Leaseholds: a tenant's right to real estate during the lease
- Easements: right to use land of another for a specific purpose and usually passes with title when transferred

Gas and Oil Leases

Impact on Residential Lending

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Legal Issues

- BEFORE signing any lease or easement agreement consult legal counsel familiar with REAL ESTATE LAW
- Each lease or easement can be and often is unique
- Executing a lease or easement may have the potential to restrict the property from selling, building or gas drilling

Gas and Oil Leases

Impact on Residential Lending

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Legal Issues

- BEFORE signing any lease or easement agreement consult legal counsel familiar with REAL ESTATE LAW
- Each lease or easement can and often is unique
 - Terms may be negotiated
 - obligation to restore
 - surface rights
 - location of drilling or geo-physical testing
 - other restrictions
- Executing a lease or easement may have the potential to restrict the property from being sold, building or gas drilling

Gas and Oil Leases

Impact on Residential Lending

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VP – Residential Mortgage Lending Tompkins Trust Company

Legal Issues

- Termination of lease
 - Date expiration
 - Company may file an affidavit contesting expiration
 - Company claims “force majeure”
 - Lease grants automatic renewal upon certain conditions
 - “...so long as gas/oil may be produced or operations are being conducted...”
 - Breach of lease terms
 - Non-payment of royalties
 - Other breach

Gas and Oil Leases

Impact on Residential Lending

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Is property value impacted with a gas lease?

- Commercial
 - Commercial value may diminish, stay the same or increase depending on the nature and highest and best use of the property
 - Commercial value is frequently established based on the income approach...by the amount of income generated by the use of the property

Gas and Oil Leases

Impact on Residential Lending

by Greg May

VP – Residential Mortgage Lending Tompkins Trust Company

Is property value impacted with a gas lease?

- Residential
 - Residential property is purchased as a bundle of rights to allow the “quiet enjoyment” of the parcel
 - Value is supported based on comparable sales of similar properties within a short time and distance
 - Illustration – Pen and refill

Gas and Oil Leases

Impact on Residential Lending

by Greg May

VP – Residential Mortgage Lending Tompkins Trust Company

Gas/Oil Lease Issues

- Leases commonly give up some of the bundle of rights to quiet enjoyment
- Leases commonly place restrictions on use of the property
 - Restricts building outbuildings, sheds, pools, plantings,
- Leases commonly have automatic renewals or extensions of the lease terms even with just geophysical activity
- Leases commonly have set backs from structures for drilling but allow for pumping stations, roads, lighting, pipelines, etc. within the 200 foot setback area
- Current & proposed NYS set back is 100 - 150 foot

Gas and Oil Leases Impact on Residential Lending

by Greg May

VP – Residential Mortgage Lending Tompkins Trust Company

Residential Lending Issues

- Secondary Market Requirements:
 - No surface or subsurface entry within 200 feet of residential structure for Freddie Mac
 - No surface or subsurface entry within 300 feet of residential structure for FHA and not within 300 feet of boundary line
 - Must not interfere with the use and enjoyment of any present or proposed improvements or the balance of the mortgaged premises
 - Must not affect property marketability
 - Must have no or very limited impact on value
 - Must be commonly acceptable to private institutional lenders (it is NOT commonly acceptable in CNY)

Gas and Oil Leases Impact on Residential Lending

by Greg May

VP – Residential Mortgage Lending Tompkins Trust Company

Residential Lending Issues

- Secondary Market Requirement:
 - Title insurance endorsements required to affirmatively insure the lender against damage or loss due to exercise of drilling rights
 - NYS title insurance comprehensive endorsement contains the following restrictions that would likely void coverage if they exist:
 - No structures over 35 feet tall on premises
 - No storage of any material, machinery, equipment or supplies on premises
 - Premises shall not be used for any commercial purposes
 - All allowed in typical gas lease - coverage likely void

Gas and Oil Leases Impact on Residential Lending

by Greg May

VP – Residential Mortgage Lending Tompkins Trust Company

Residential Lending Issues

- Secondary Market Requirement:
 - If underground mines exist, the Appraiser must consider the effect on value and marketability and support that by comparable sales
 - Expensive and/or impossible to research without:
 - central data collection and report access point
 - practice of recording lease memorandums rather than lease

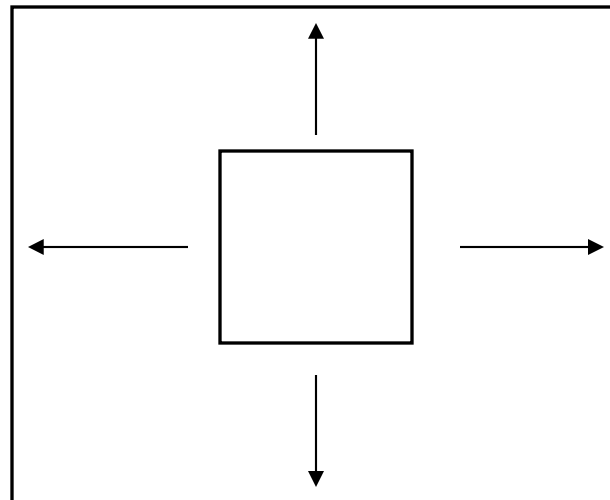
Gas and Oil Leases

Impact on Residential Lending

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- At least 200 foot setback from any improvements (FHA is 300 ft)
- At least 400 foot plus house, etc. of say 40 x 40 (FHA is 600 ft)
- An acre is approx. 43,560 sf
- So at 440' X 440' = 193,600 sf or approx 4.5 acres before well septic, outbuildings (FHA: 640' X 640' = 409,600 sf or 9.4 acres)



Gas and Oil Leases Impact on Residential Lending

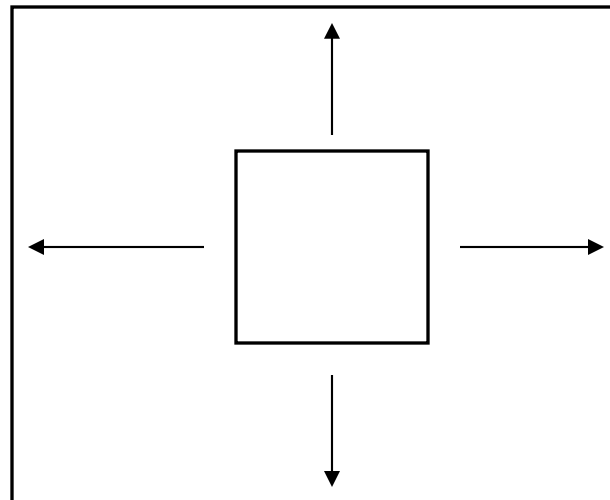
by Greg May

VP – Residential Mortgage Lending Tompkins Trust Company

Conclusion – Conventional Financing:

- Must have at least 5 acres surrounding the improvements released from the lease to finance as a Residential property

Approximately 5 Acres



Gas and Oil Leases Impact on Residential Lending

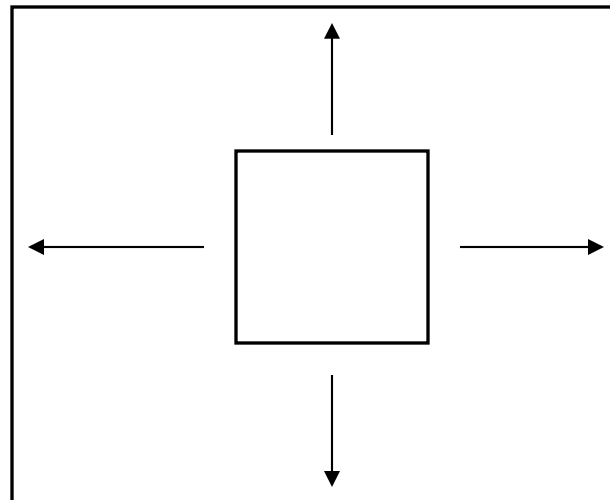
by Greg May

VP – Residential Mortgage Lending Tompkins Trust Company

Conclusion – FHA Financing:

- Must have at least 10 acres surrounding the improvements released from the lease to finance as a Residential property

Approximately 10 Acres



Gas and Oil Leases

Impact on Residential Lending

by Greg May

VP – Residential Mortgage Lending Tompkins Trust Company

- If property sits closer to road or property boundary and neighbor has signed a gas lease, it may create an issue in securing financing
- Many lenders are taking some calculated risk at this time that neighboring properties do NOT have leases that would restrict financing – that may not last into the future
- Expect that most if not all lenders will need you to get a release of the lease on at least a 5 acre area surrounding the improvements or at least 10 acres for FHA loans
- Always discuss a lease with a Real Estate Attorney before execution
- Talk to your lender and attorney early about leases - it takes weeks and sometimes longer to secure releases
- Thank you. Questions?

1PROHIBITION OF LEASING MINERAL RIGHTS AND OIL & GAS RIGHTS RIDER

This Prohibition of Leasing Mineral Rights And Oil & Gas Rights Rider, is incorporated into and shall be deemed to amend and supplement the Mortgage (the "Security Instrument"), of the same date, given by the undersigned (the "Borrower"), to secure Borrower's Note to ALTERNATIVES FEDERAL CREDIT UNION (the "Lender"), of the same day and covering the property described in the Security Instrument and located at _____.

PROHIBITION COVENANT

Notwithstanding anything to the contrary provided for in the Security Instrument, Borrower/Mortgagee further covenants and agrees as follows:

No part of the premises securing the repayment of the mortgage loan, nor the area directly below the premises, shall be leased, assigned or otherwise transferred for use to extract minerals, oil or gas from said land or area, nor may any surface activity be permitted to occur on said land in the furtherance of any such extraction activity. In the event there is an existing lease or similar instrument affecting such a transfer of rights, then the borrower shall take affirmative steps to prevent any renewal or expansion of such prior grant, to the extent possible under the terms of such instrument. This covenant restricting the use of the premises shall run with the land and a violation thereof shall subject the borrower or such other person then holding title at the time that the violation occurs, all persons with an interest in the property holding under the borrower and all subsequent holders of title, until the violation is cured, to injunctive or equitable relief, to bring the premises back into compliance with this covenant restricting the use of the premises in addition to the payment of reasonable expenses and attorney's fees and costs incurred by the lender, its successors or assigns, in any successful legal action to obtain such other equitable relief to enforce this covenant.

Any violation of this covenant which remains uncured for more than thirty (30) days, after written notice by first class mail sent to Borrower at the property address, shall be deemed a default as defined under the terms of this mortgage. The Lender/ Mortgagee, shall have all of the rights then resulting from a "default" by the Borrower.

The terms of this rider may be modified only by written agreement signed by the Chief Executive Officer of Lender, or the highest ranking official of the holder of the mortgage.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and provision contained in this Prohibition of Leasing Mineral Rights and Oil & Gas Rights Rider.

STATE OF NEW YORK)
COUNTY OF TOMPKINS) ss.:

On day of , 20 before me, the undersigned, personally appeared _____ personally known to me or proved to me on the basis of satisfactory evidence to be the individual(s) whose name(s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies), and that by his/her/their signature(s) on the instrument, the individual(s), or the person upon behalf of which the individual(s) acted, executed the instrument.

Notary Public

SECURITY

financial

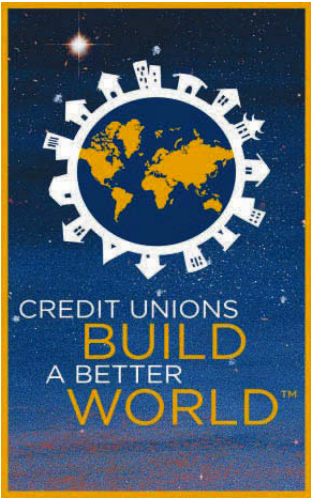
Visions
Federal Credit Union

September/October 2011 www.visionsfcu.org

CELEBRATE CREDIT UNION WEEK

Why do 184 million people worldwide choose a credit union? Because credit unions create opportunities for families, strengthen communities, and contribute to building a better world. Since credit unions are a cooperative and democratic financial institution, their success depends on the success of their members and their community.

Your best interest is in our best interest. This October 21, Visions will join 49,000 credit unions from 97 countries and their 184 million members to celebrate International Credit Union Day®. Credit unions strive to make the world a better place for their members by offering affordable rates and high quality service that simplify their lives and empower them to meet their financial goals. In honor of International Credit Union Day, Visions will donate \$5 to Habitat for Humanity for each new membership (opened with a checking account or loan) and new consumer loans closed the week of October 17-21.



Also, one of these lucky members will receive a \$250 Lowe's gift card. This International Credit Union Day we thank you for letting us be a part of your financial world with just the right products and services. ■

ARE YOU SCARED?

If the interest rate on your loans is a scary sight, then it is time to refinance with Visions! Auto loans, personal loans, and HELOCs are just a few of the major loans you may want to consider refinancing at Visions. Plus, you'll get the added convenience of automatic loan payments, online application (auto and personal loans), and 24/7 online access to your accounts. Refinance your new/used auto loan for as low as 2.00% APR*; your personal loan for as low as 3.99% APR*, and your HELOC with rates as low as 3.00% APR*.

There is nothing spooky about our low-rate loans so visit your neighborhood office today — just beware of dangling spiders.



Rate. Rates and terms available on new loan accounts only. Refinancing of existing Visions loans does not qualify. Certain relationships required to receive promotional rates – ask for details. Credit union membership required with a \$25 minimum deposit and \$1.00 membership fee. Loan rates are based on creditworthiness, are continued on page 5

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We would love to hear stories about how Visions helped build a better world for you, your family, or your business.

To submit your story visit **visionsfcu.org** and click on “Share Your Story”.

The story that expresses most how Visions has made an impact in making your world a better place will be awarded a **\$250 Lowe’s gift card.**

Stories can be submitted October 1 - 31, 2011. Winner will be contacted by November 18.

TACKLE YOUR DEBT

If you’ve been feeling the crunch lately from overdue bills, high-interest debt or credit card bills, your credit union has a variety of solutions—with low rates that could save you serious cash! Use our Visa Platinum credit card—with rewards—for your spending. With a great 6-month intro rate as low as 6.90% APR* you can’t go wrong. As with all of our credit cards, there is no balance transfer fee! As a homeowner, you may find a home equity line of credit is more your speed. You can start with a 3-month intro rate as low as 0.00% APR*, followed by the current

variable rate as low as 3.00% APR*. Personal loans are the easy choice to tackle your high-interest debt. Rates as low as 3.99% APR* will let you show your debt who’s boss! Hustle in to Visions, give us a call, or apply online so we can help you tackle your debt for good! **APR = Annual Percentage Rate. Rates and terms available on new loan accounts only. Refinancing of existing Visions loans does not qualify. Certain relationships required to receive promotional rates – ask for details. Credit union membership required with a \$25 minimum deposit and \$1.00 membership fee. Loan rates based on creditworthiness, are available to qualified borrowers only, may vary from the rates shown and are subject to standard credit criteria. continued on page 3*

Membership open to most residents of Broome, Tioga, Chenango, Chemung, and Schuyler counties (NY), cities of Syracuse and Rochester, and Bradford County (PA)

LENDING SERVICES

LENDING IS OUR PRIORITY

Lending and assisting our members with credit issues is a priority at Visions.

If you have been declined for a loan, or received a negative response on a lending question, we encourage you to speak to one of our branch managers.

The credit union has established a “second look” initiative, in which our branch managers will review your declined loan request and assist you with possible alternatives to your financial needs. We also offer financial counseling for our members to assist them with their financial obligations.

In addition, our lending staff can provide the necessary information to help you understand the importance of

your credit rating, what it means, and various methods to improve it. **112200500**

If you are just starting to establish credit, these suggestions will help you earn and maintain a good credit score.

It is never too late to improve your credit. If you have questions regarding improving your credit, or need assistance in obtaining a loan, please stop in to see your neighborhood branch manager. ■

JUST SAY NO!

DO NOT: deposit or cash checks for others through your account. DO NOT: provide your card and PIN to anyone to use. Y-O-U will be held responsible for the items that are processed through your account.

DO NOT: be convinced to deposit or cash checks for friends, family members, or those seeking assistance at an ATM. Unfortunately, the check may be returned against the account — causing good members to owe the credit union monies.

Parents, this is a good time to provide a gentle reminder to your children to use their accounts for their own purposes — and NOT process transactions for their friends or acquaintances.

If you are approached, DO NOT provide your card and PIN to others (**family members included**) or deposit or cash items for others — JUST SAY NO!

FREE to local residents!

Confidential Document Shredding

October 15th

Endwell - 3301 Country Club
10 a.m. - 2 p.m.

J.C. Pavilion - near Wal-Mart
10 a.m. - noon

Vestal - Town Square
1 p.m. - 3 p.m.

Financial Statements • Cancelled Checks
Credit Card Statements & Offers
Insurance Papers • Anything containing your SSN

CARDBOARD NOT ACCEPTED

Residents can bring up to 10 cartons of documents!

Shredding service provided by
Confidata, Inc. Mobile (On Site) Shredding Service.

Time to Bring Your Digs Into the 21st Century?

Would you call your decorating style shabby chic—or just plain shabby?

Whether you like retro or metro, we can help upgrade your living standard.

When it's time to bring your digs into the 21st century, see us about a home equity loan.

We offer great rates, and you usually qualify for a tax deduction.



PREFERRED LOAN RATES

RATES EFFECTIVE SEPTEMBER 2011

Loan	APR	Variable Rate (APR)	
New Vehicle			
100%(+)	2.39 (36 mo.)(8.90†).....	2.00 (36 mo.) (7.90†)	
financing	2.74 (60 mo.)(8.90†).....	2.24 (66 mo.) (7.90†)	
	3.99 (72 mo.) (8.90†).....	3.49 (72 mo.) (7.90†)	
Used Vehicle			
100%(+)	3.19 (60 mo.)(10.40†).....	2.54 (60 mo.) (9.40†)	
financing	2.74 (48 mo.)(10.40†).....	2.24 (48 mo.) (9.40†)	
	2.39 (36 mo.)(10.40†).....	2.00 (36 mo.) (9.40†)	
Home Equity IV – 2.90% APR 1st 12 mos., or 0% for 3 mos. then Prime -.25%			3.00
Home Equity VI – 2.90% APR 1st 12 mos., or 0% for 3 mos., then Prime -1.00%			4.00*
VISA Classic, no annual fee			10.00
VISA Platinum, \$14 annual fee			8.00
MasterCard, \$12 annual fee			6.25
Gold MasterCard, \$40 annual fee			9.00
Signature Loan			5.99 (60 mo.) . 4.99 (60 mo.) (10.90†)
Home Equity			3.74 (60 mo.) NA
New RV/Boats			3.99 (60 mo.) (9.40†).....3.49 (60 mo.) (8.40†)

*Loan rates are based on credit worthiness of applicants and may vary from those shown above. Other restrictions may apply. Contact your credit union for details. APR=annual percentage rate. †= non-promotion rates. Variable rates may change monthly. Maximum Home Equity rate is 15.8% APR after intro rate expires. *Minimum Home Equity rate is 4.00% APR, with the exception of HELOC IV. Prime rate is 3.25% as of 8/15/11. Credit union membership required. If closing costs apply, payment of certain third party fees required. (On a \$100,000 loan, payment would be \$1,829.94 per month at 3.74% APR for 60 months. Maximum LTV 90%. Monthly payment is example only and will vary based on loan amount.) Closing cost fees range from \$415 to \$1,365. Itemized fees available on request. Homeowners insurance required. Flood insurance may be required. Certain relationships required to receive promotion rates. HELOC rates, after any introductory rate, are variable rates that may change monthly. Home Equity Loan to Value (LTV) maximums are 90%. HELOC IV = 90%, HELOC VI = 100%. All values less first mortgage balance (if any). HELOCs advertised are for single family residences only. Ask for details. All terms above are approximates. Rates effective as of 9/1/11 and may change monthly. Certain restrictions apply to refinancing of credit union debt. Contact the credit union for the most current rate. Credit card rates are for new accounts only. All foreign credit card transactions have up to a 1% transaction fee.*



MOVING?

When life brings you the challenge of relocating, there's one thing you won't have to worry about ... finding a new credit union. No matter where you go, you can stay with us. That's because of our “once a member, always a member” policy.

With services like online and mobile banking, as well as surcharge-free, credit-union-only ATM networks available across the country, you can manage your credit union accounts from anywhere!!!

LIFESTYLES

CONCERNS ABOUT MEDICARE AND SOCIAL SECURITY? JOIN US!

Visions will host a Seniors Expo on October 19 at 3301 Country Club Road, Endwell, from 10 a.m. to 12:30 p.m. The Expo will educate our members and the community about agencies and services that provide care and assistance that augment the lives of senior members of our community.

Visions is working with several agencies to bring awareness and understanding to seniors and their families on crucial issues. Those issues include healthcare, financial planning, and in-home care services. Visions has organized this Seniors Expo with the goal of enabling retirees and their families to make better pre-retirement and post retirement decisions.

In the U.S., there are about 78 million Baby

Boomers, the oldest of whom are now collecting Social Security. However, with rising costs and inadequate retirement planning, many are in need of assistance and information.

Additionally, Baby Boomers more recently have assumed the role of caretaker for their parents, which at times may be difficult to handle and even confusing without additional aid.

Visions Federal Credit Union is dedicated to ensuring the welfare of our community through education and awareness on topics that are critical to their well-being. If you and your family are interested in attending this free event, please call (607) 754-7900, ext. 531, to make reservations. ■

FAQs FROM MEMBER FEEDBACKS

Q: Living out of the area, I was wondering if you could provide webinar access to the ongoing seminars you currently offer.

A: Visions is always looking for ways to improve our website. We hope in the near future we will be able to offer online access to our member webinars. **107177300**

Q: If I am on disability, and I have opted to have Life and Disability coverage on my loan(s) at Visions, how do I initiate a claim?

A: To file a disability claim, there is paperwork that needs to be filled out through CUNA (Credit Union National Association). You can find the required paperwork and file your claim at www.cunamutual.com, or call 1-800-621-6323. Once the paperwork is obtained, your doctor needs to complete a portion before the claim can be submitted to CUNA.

Q: Why don't you offer principal-only payments online? Why do I have to go into a branch?

A: At this time, due to software constraints, we are unable to offer principal-only payments online, but we do have an option for you that might help. If you make a payment through our VisionLine Account Access to your loan, and that payment has satisfied all of your interest due, the next payment *on the same day* will be applied to the principal balance. All loan interest must be satisfied before applying the additional payment to the principal. ■

OAKDALE MALL HOURS CHANGE

As of August 1, 2011, the hours of our Oakdale Mall office are: Monday and Tuesday 9 a.m. to 4:30 p.m., Wednesday 9:30 a.m. to 4:30 p.m., Thursday and Friday 9:30 a.m. to 7 p.m., and Saturday 10 a.m. to 2 p.m.

The walk-up ATMs at this location will continue to be available during regular mall hours.

TACKLE YOUR DEBT

continued from page 1
See credit union to determine the rate and amount for which you qualify: Rates shown good on applications received thru 9/30/11. Rates and promotion subject to change at any time. Visa® Platinum annual fee = \$14. Every dollar in net purchases equals one point that may be redeemed for valuable merchandise or travel. No balance transfer fee. Variable rates may change monthly on

credit card. Intro rate for qualified borrowers only, good for six statement cycles, after which normal rate will apply. As of 9/1/11 that rate was 8.00% APR on a Visa® Platinum card. Other credit cards available, ask for details. Personal – Monthly payment would be \$425.73 on a \$5,000 loan at 3.99% APR for 12-month term (approx.). Other rates and terms available. Maximum signature loan limits based on credit-worthiness. Home Equity Loan – Residence must be a single-family, owner-occupied dwelling with a maximum loan to value of 90% of appraised value less outstanding first mortgage (if any), maximum \$100,000 interest only payments for first five years during draw period. The rate for the first three months will be an introductory rate of 0.00% (zero) APR. After three months the variable rate is Prime Rate -.25%, and may change monthly. As of 8/15/11 the APR would be 3.00%. The Prime Rate is the highest Prime Rate offered in The Wall Street Journal based on the fifteenth day of the preceding month. Minimum initial advance of \$15,000 required. You may be required to pay certain fees to third parties to open a Home Equity Line of Credit. These fees generally total between \$415 to \$1,365. Itemized fees available on request. Homeowners insurance required. Flood insurance may be required. Home equity line of credit maximum APR is 15.8%. Other HELOC products available. ■



FamilyMint™

Helping kids appreciate money™

The modern replacement for the piggybank!

- Simulated online banking experience for kids 5 to 12.
- Parents hold the money & act as the “banker”.
- Simplifies everyday money interaction between parents & kids. Saves time.


KIDS CAN	PARENTS CAN
• Make deposits & withdrawals.	• Automate allowances.
• Move money between goals.	• Review/approve transactions.
• Budget through a savings plan.	• Provide motivating interest.
• Create unlimited goals.	• Match and lock goals.

Visit the Kirby Kangaroo Club page on visionsfcu.org to learn more!

FUEL ENERGY ASSISTANCE LOANS

With payments as low as....

\$127.⁷²



Rates and terms are available on new loan accounts only. Refinancing of existing Visions loans does not qualify. Credit Union membership required with \$25 minimum deposit and \$1.00 membership fee. Payment example shown is for a \$1,500 loan at 3.99% APR for 12 month term (approx.). APR= Annual Percentage Rate. Rate as of 9/1/11 and subject to change. Rates based on credit worthiness and may vary from those shown. All loans subject to standard credit criteria. Maximum signature limit and signature loan limit policy are based on credit worthiness. See credit union to determine the maximum amount you qualify for. Certain relationships required to receive promotional rate. Ask for details.



Holiday Club

Attention Holiday Club Account Members

Funds from your Visions Holiday Club account will be disbursed on November 1. The money will automatically be deposited into your primary or elected share account. Let the shopping begin!

If you do not have a Visions Holiday Club account, be prepared for next year's holiday season — open one today! ■

WANTED: MYSTERY SHOPPERS

Visions would like to recruit interested members to be Mystery Shoppers for their credit union.

Shopper requirements:

- Credit union member*
- Microsoft Word (or MS Works)
- E-mail
- Flexibility to visit several branches

We are especially interested in members who are able to visit our branches in any of the following areas: Syracuse, Norwich, Watkins Glen, Elmira, Horseheads, and Spencer, NY; Sayre and Wysox, PA.

If you are interested please visit our website, visionsfcu.org, and submit a Mystery Shopper form. Thank you in advance for your willingness to assist us!

*Must be 18 or older. Visions Federal Credit Union employees (past and present), volunteers, and their families are not eligible. Based on the volume of responses, not everyone will be able to participate, but there may be other opportunities in the future.

FINANCIAL SERVICES

REAL ESTATE • DISCOUNT BROKERAGE • TAX PREPARATION • ANNUITIES • MUTUAL FUNDS • HOME & AUTO INSURANCE • LIFE & HEALTH INSURANCE • TRUST SERVICES

INSURANCE

LEARN ABOUT MEDICARE PLANS

PRL Associates is pleased to announce that Jeremy Bingel, Medicare sales representative with Excellus BlueCross BlueShield, will be at the Visions McKinley Ave. branch on Friday afternoons from 1 to 3 p.m. with information about its Medicare Advantage and Medicare Supplemental plans.*

The annual election period, during which Medicare beneficiaries can change Advantage plans or switch to Original Medicare and enroll in a Medicare Supplement plan, will begin a month earlier this year. Plan selections for 2012 can be made between October 15 and December 7. Informal Medicare seminars will also be hosted by Excellus BCBS at Visions' main office on Coun-

try Club Road, Endwell.

The schedule will be available at each branch, at ExcellusMedicare.com, or by calling Excellus BCBS toll-free at 1-800-659-1986, (TTY/TDD users call 1-800-421-1220) Monday to Friday, from 8 a.m. to 8 p.m. From October 15 to February 14, you can reach a BCBS sales representative seven days a week from 8 a.m. to 8 p.m.

Jeremy has been with Excellus BCBS for five years and has extensive knowledge of Excellus BCBS plans. You can reach him at (607) 723-6495 (office) or (607) 206-3480 (cell), or via e-mail at jeremy.bingel@excellus.com.

*A sales person will be present with information and applications. For accommodation of persons with special needs at sales meetings, call 1-800-659-1986 (TTY/TDD users call 1-800-421-1220). Excellus BCBS contracts with the federal government and is a Medicare Advantage organization with a Medicare contract. ■

ESTATE PLANNING

PROCRASTINATION STYMIES SOUND ESTATE PLANNING

The response to the article, "Probate Avoidance and Tax Savings: Who Benefits?", in the July/August newsletter, was overwhelming. We think it was the tag line that got everyone's attention: "So kids, suggest that your parents come see us. Then put your own house in order!"

For some reason, parents (including myself), don't talk to their kids about this, and vice versa. Maybe any death-related topic is something that everyone puts off discussing as long as they can. "Geez, Louise, we just finished planning for retirement, and now they want us to plan our estate..."

Maybe it's because there are several kids and no one wants to take the lead with mom and dad for fear of



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Senior Trust Officer
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Linda Hamlin, J.D.
Trust Officer
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appearing to be mercenary. Maybe there are some old family wounds that might surface in the process. Maybe the marriage is a second marriage (50% divorce rate) with no pre-nup, and no one wants to tackle the difficult plan-

ning issues that can come from having two sets of children. Perhaps mom and dad had sweetheart wills drawn up 25 years ago (all to the spouse if living, if not, outright to the children equally) and they think those wills are fine, and that there is no better option. Or, just maybe some folks are happy to let the state decide where their property goes and who settles their estate.

The fact is that we've helped hundreds of clients deal successfully with all these issues, and as an objective third party we can break any family ice that may be out there and in the way.

When they are finished, most members who do their estate planning with us look back at the above reasons for procrastinating and realize how foolish they were. While we won't go so far as to say they come away thinking the time they spend with us planning their estate was the most fun they've ever had in their lives, they do realize it was a lot easier than they thought it would be, and that it was the best four hours (total) they ever spent "cleaning things up" for their family. And, of course, it helps that we don't charge for our estate planning services.

Give us a call. You'll be glad you did. For an appointment, please call Don Bernardo at (607) 321-0592 or Linda Hamlin at (607) 321-0651. ■

continued on page 8

INVESTING

OPPORTUNITY AHEAD DESPITE U.S. DEBT DOWNGRADE

After the market close on August 5, Standard and Poor's (S&P)—one of the three major U.S. rating agencies—downgraded the U.S. government debt from AAA to AA+. This is actually a drop of less than one level within the S&P rating system. **104810800**

According to S&P, an obligor rated AAA has "extremely strong capacity to meet its financial commitments" while one of AA has "very strong capacity to meet its financial commitments" and differs from AAA obligors "only to a small degree." Therefore, U.S. debt is still rated very strong. In addition, the two other major U.S. rating agencies, Moody's and Fitch, have maintained their highest ratings for U.S. federal debt. S&P kept the short-term rating of the

United States at the top rating of A1+. Short-term money market instruments are rated on a different scale, but the status quo with respect to these ratings implies no impact to money market funds.

Since the first U.S. rating agency was established in the early 1900s, the U.S. government has not been downgraded. Frankly, a downgrade just sounds and feels bad. The word "downgrade" has similar negative connotations to words like "demotion" or "decline."

However, while this is the first time that the United States has been downgraded by a U.S. rating agency, it is not the first time that the United States has been downgraded. The United States was downgraded one level by China's Dagong Global Credit Rating Company to A+ in November 2010 and by Germany's Fitch Rating Agency to AA in June 2011.

There is also much pre-

cedent for other AAA-rated sovereign nations seeing their debt downgraded. Japan lost its AAA rating in 1998 and Canada was downgraded in 1994; however, both successfully regained their AAA status at later dates. Japan lost its AAA status again in 2009. Though this downgrade feels unique and unprecedented, it has already happened relatively recently to the United States without much attention and to other sovereign nations in the past.

As investors, we need to take this downgrade as what it is—a change in status that does not meaningfully diminish the term "full faith and credit of the U.S. government." In fact, the debt of the United States continues to be viewed as preeminently high quality. One measure of this is to examine the credit default swap market, which is similar to insurance that institutional investors can buy to protect their bonds in case of default. Even after the downgrade by S&P, the

cost to "insure" against the default of the U.S. government is much lower than nearly every country in the world, including many AAA credits like Germany, France, and the United Kingdom. Therefore, even though U.S. debt does not still carry a full AAA rating, the market still views the U.S. government's ability to meet its debt obligations as AAA worthy.

So, what does this all mean to the markets? S&P telegraphed their downgrade starting a couple of weeks ago while the debt ceiling debate was still ongoing. As a result, we believe that the markets have largely priced this downgrade news in. In addition, we have likely not seen the last of downgrades. Now that the United States has been downgraded, S&P will separately be reviewing government agencies and companies that rely heavily on U.S. government support—such as Fannie Mae, Ginnie Mae, and Freddie

YOUTH & YOUNG ADULTS

A STEP TOWARD ADULTHOOD: AN AFTER-SCHOOL JOB

Whether you're bagging groceries, waiting on tables, or working in retail, the government is going to collect taxes from your wages. Rather than collecting a lump sum of taxes at the end of each year, the government takes a portion of every paycheck.

Your first task on the job is going to be filling out a W-4. For each deduction you claim, the amount of money the government takes out of each paycheck is reduced,



reducing any tax refund you might be eligible for at the end of the year. **35118602**

Each year, by Jan. 31, your employer must send you a W-2 that reports exactly

how much money you made over the past year and how much of that was withheld for taxes. This form has most of the information you'll need to file your income tax return.

Some pros and cons of having an after-school job are:

- You're a member of the adult working world, which allows you to establish contacts with potential future employers.
- You'll learn and reinforce valuable skills such as time management, the ability to cooperate with others, and commitment.
- You may have less time for your homework and other after-school commitments.
- If you work long hours you'll get less sleep and feel more emotional stress.

Visit us at VISIONSfcuROCKS.org. We can help you get on the right track with your finances. ■

SMART START CHECKING FOR YOUR TEEN

Has your teen started their first job? Do they know how to manage money? What better way to teach them financial responsibility than to open a SMART START checking account!

A SMART START checking account is *free* and has no minimum monthly balance, no monthly fees, and includes the first order of 50 checks! Visions offers this checking account to members beginning at age 13 to help them learn accountability and responsibility.

Stop in to your local branch or visit us online at VISIONSfcuROCKS.org for more information on our SMART START CHECKING account and other products and services your credit union offers to help your teen start the path to a successful financial future. ■

GO ORANGE!

Show your SU pride and add one of these cute bears to your next tailgate party! **\$5 each**

Available at most locations.
(while supplies last)

All contributions collected go directly to federal candidates who support credit union issues. Thank You!

"Hey Mom, FICA ate my paycheck!"

Your teenager's first paycheck may be a shock—for how much smaller it is than expected.

But those surprise deductions create a great teaching opportunity for parents, and for us at the credit union, to encourage that teen to make the most of the remaining funds.

Bring your teen, and the paycheck, to the credit union. We can help you drive home the importance of making wise decisions about that hard-earned money.

ARE YOU SCARED OF LOAN RATES?

continued from page 1
available to qualified borrowers only, may vary from the rates shown, and are subject to standard credit criteria. See credit union to determine the rate and amount for which you qualify. Rate and promotion subject to change at any time. **New/Used Auto** - Payment would be \$572.85 on a \$20,000 loan at 2.00% variable APR for 36 month term (approx.). Variable rates may change monthly. Other rates and terms available. **Personal** - Payment would be \$425.73 on a \$5,000 loan at 3.99% APR for 12 month term (approx.). Other rates and terms available. Maximum signature loan limits based on creditworthiness. **Home Equity Loan** - Residence must be a single-family, owner-occupied dwelling with a maximum loan to value of 90% of appraised value less outstanding first mortgage (if any), maximum \$100,000 interest only payments for first five years during draw period. The variable rate is Prime Rate -.25%, and

may change monthly. As of 8/15/11 the APR would be 3.00%. The Prime Rate is the highest Prime Rate offered in The Wall Street Journal based on the fifteenth day of the preceding month. Minimum initial advance of \$15,000 required. You may be required to pay certain fees to third parties to open a Home Equity Line of Credit. These fees generally total between \$415 to \$1,365. Itemized fees available on request. Homeowners insurance required. Flood insurance may be required. Home equity line of credit maximum APR is 15.8%. Other HELOC products available. ■

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(Course available to NY residents only.)

SPECIAL SERVICES

UPCOMING EVENTS

(Clip and Save)

BROOME/TIOGA

All Broome/Tioga counties' seminars and events will be held at Credit Union Center (3301 Country Club Rd., Endwell) unless otherwise noted; please call 754-7900, ext. 531, for reservations.

FAMILY DAY

FEATURING JOHNNY ONLY

Saturday, Sept. 24
11 a.m. – 2 p.m.

Live music by Johnny Only, games, refreshments, and more! Great family fun—no reservations necessary.

HOW CAN MY FAMILY RECEIVE ONGOING INCOME IF I DIE? SEMINAR

Tuesday, Sept. 27, 6:30 p.m.

PAYING FOR LONG-TERM CARE SEMINAR

Wednesday, Oct. 12, 6:30 p.m.

ESTATE TAX SEMINAR

If no changes are made in the estate tax law, federal and NYS taxes may take a combined 51 percent of your assets. What do you do?

Tuesday, October 18, 7 p.m.

SENIOR EXPO

Wednesday, October 19
10 a.m. – 12:30 p.m.

MEDICARE PLAN SEMINAR

Friday, October 21, 10 a.m.

KIRBY HALLOWEEN PARTY

Friday, October 21, 7 p.m.

Haunted house, games, refreshments, and more!

MEDICARE PLAN SEMINAR

Friday, October 28, 10 a.m.

MEDICARE PLAN SEMINAR

Friday, November 4, 10 a.m.

DEFENSIVE DRIVING—

ALL DAY COURSE

Wednesday, Nov. 9, 9 a.m. – 4 p.m.

Cost: \$35 for members, \$40 for nonmembers

Please call Deb Speer at (607) 754-7900, ext. 355, for reservations.

CHEMUNG

All seminars and events will be held at the Horseheads office, Village/Jubilee Plaza, 2898 Westinghouse Rd., unless otherwise noted; please call 795-4183 for reservations.

FIRST-TIME HOME

BUYER SEMINAR

Wednesday, October 5, 2 p.m.

MONROE

All seminars and events will be held at the Rochester office, 1130 E. Main St., unless otherwise noted; please call (585) 328-5410 for reservations.

PROGRESSIVE WAY TO BETTER CREDIT CLASSES

Wednesday evenings in October & November
Please call for details.

BRADFORD (PA.)

All seminars and events will be held at the Sayre office, 2121 Elmira St., unless otherwise noted; please call (570) 888-0507 for reservations.

NATURAL GAS WINDFALL PLANNING SEMINAR

Tuesday, October 4, 7 p.m.

OFFICE CLOSINGS

COLUMBUS DAY

Monday, October 10, 2011
All offices closed.

VETERANS DAY

Friday, November 11, 2011
All offices closed.

JC CAROUSEL DAYS



Employees of the JC Pavilion office and family were happy to help children learn how to “Save, Spend, and Share” with our Kirby Kangaroo program during the JC Carousel Days held this summer. Visions also sponsored a coloring contest with nearly 60 entries in three age categories. Volunteers from left to right are: (front row) Kham Phonechanthasone, Courtney Shupp; (back row) Pam Busboom, Jason Pallady, Concepcion Pallady.

Let's READ!

BOOK DRIVE

thru October 28th
to benefit the
United Way's
“Let's Read” program

Please donate your gently used or new storybooks (preschool - 3rd grade level) at...

- Binghamton - Upper Front St.
- Endicott - 24 McKinley Ave.
- Endwell - Country Club Rd.
- Johnson City - 117 Oakdale Rd.
- Vestal - Town Square, University Center

NEWARK VALLEY PARADE



Kirby Kangaroo, Visions employees, friends, and family members are lined up and ready to march in the Newark Valley Parade. The crew enjoyed being a part of the parade and handing out flyers, candy, and stickers.

WIN \$25!

If you find your account number printed in bold type in this issue of Financial Security, fill in the information requested below and mail the coupon to Marketing c/o Visions Federal Credit Union. The sum of \$25 will be credited to your share account and a receipt forwarded to you.

Name _____

Address _____

City _____ State _____ Zip _____

Account # _____

Signature _____

CREDIT UNION TODAY

PRESIDENT'S REPORT

EXPRESS DEPOSIT, MOBILE BANKING BRING MORE CONVENIENCE

The Board of Directors of Visions FCU has defined for management "Membership Ends Statements," which state that Visions FCU exists to offer exceptional service to members, encouraging them to improve their self-sufficiency by providing necessary resources at competitive costs.

Convenience is our Board's number one Ends Statement goal. Our Board goal is that "members have convenient access and control over their funds." Convenience is interpreted as providing financial service 24 hours/7 days per week through multiple channels, and a delivery system meeting the diversified needs of our members. Visions contin-



Frank E. Berrish
President/CEO

ues to reinvest in its automated delivery channels to improve convenience. Over the past year, Visions has introduced enhanced products and services to better serve our members:

Express Deposit One of the most exciting member services that we have introduced is remote deposit capture, RDC, which Visions has branded as our "Express Deposit" service.

Our members who are not near a shared service center location, or a local branch, have taken to this service and praised its added convenience. Already in 2011, Visions has taken more than 2,300 deposits through this service, and we only expect this to grow with the



Scan this QR code with your smart phone to see frequently asked questions about Express Deposit.

introduction of mobile RDC later in 2011, which will help to capture our Gen Y and younger members.

Mobile Banking Mobile banking has been a major focus of both our internal development and our work with business partners over the past year. In early 2011, Visions substantially enhanced our mobile offering with our partner mShift by introducing text banking, an

iPhone application, branch location services, and bill payment. Some exciting changes later in 2011 include an enhanced iPhone application and a new Android application, both featuring the ability to complete mobile RDC transactions on the phone.

Website Enhancements to our traditional website have also been extensive, with the home page being redesigned, a new foreign currency exchange program, and enhanced business lending offerings.

- The homepage was redesigned with a focus on conveying more information within a limited space.

- Our foreign currency exchange allows members to easily buy foreign currency before they leave the country and have it shipped securely to their door. **650134101**

- QR codes are also being introduced as a new way to market to our many

mobile-savvy members.

These codes allow a member with a smart phone to scan a barcode and be immediately taken to information regarding this service. This new and innovative marketing approach has placed Visions at the forefront for using this technology in our markets.

- Lastly, we have enhanced the MBL online offering by creating new informational pages for our commercial members to learn more about our services and also by creating a new online commercial loan application. This has allowed Visions to directly enhance the convenience to our business members when they need new products and services.

We continue to improve convenience to our members by enhancing our automated delivery channels to meet the needs of all members, from Gen Y to Baby Boomers.

Frank E. Berrish
President/CEO ■

OIL AND GAS LEASES AFFECT MORTGAGES

We would like to remind our members of the effect that oil and gas leases have on member mortgage applications, or modifications of existing loans, with Visions. Our goal is to protect our membership whose deposits will be used to make mortgages in this area.

To meet the mortgage needs of our members, Visions complies with the secondary mortgage market guidelines issued by Fannie Mae and Freddie Mac. When members seek mortgages on properties encumbered with an oil and gas lease, compliance is accomplished by obtaining from the oil and gas company a subordination,

non-disturbance and attornment (SNDA) agreement. The SNDA allows Visions to maintain its priority of title over the premises; it also allows us to obtain title insurance which is required by Fannie Mae, Freddie Mac, and Visions. **88986200**

It has been reported that there are environmental risks arising out of oil and gas drilling. Potential damage to the environment is not only a community concern but could also lead to a loss in value of the mortgaged property and possible default. Thus, the rights of Visions as the mortgagee must be preserved in order to protect the assets of the membership. To that end, the SNDA includes indemnification by the oil and gas company which in turn protects our members in the event there is damage to the property caused by drilling.

Visions originates mortgages on properties encumbered by an oil and gas lease

by diligently reviewing each request on a case-by-case basis. To originate or modify a mortgage on a property encumbered by an oil and gas lease it is necessary for the oil and gas companies to sign a SNDA. Visions cannot compel the companies to sign the SNDA. However, Visions has had success in negotiating SNDAs. Members are cautioned that it may take several months for an oil and gas company to respond to a request to sign the SNDA. Some companies have refused to sign, which resulted in denial of a mortgage.

To expedite the process, members should advise the loan staff whether the property is encumbered by a lease. The lending staff will then advise the member of the necessary documentation. Visions continues to work with our members and the oil and gas companies to originate mortgages in a prudent, safe, and sound manner. ■

TWO VALUED EMPLOYEES RETIRE



Pictured above with President/CEO Frank E. Berrish are recent Visions retirees Denise Malfet (left) and Linda McGoff (right). Denise worked at Visions for the past 21 years, working many of those years as the IRA/deposit services specialist. Linda was a Visions employee for 29 years, most recently as R&D/quality assurance aide. These valued employees will be missed and we wish them all the best in retirement—congratulations, Denise and Linda!

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BRANCH OFFICES

Off-Site Offices

- **Mon.-Tues. 9 am-4:30 pm**
Wed. 9:30 am-4:30 pm
Th.-Fri. 9:30 am-5:30 pm
- Binghamton – MetroCenter
- Binghamton – Nantomsburg
- **Sat. 10 am-2 pm**
- Binghamton – Upper Court St. Credit Union Center
- **(Mon.-Tues. 9 am-noon**
Wed.-Fri. 9:30 am-noon
Loan appls. only, pm)
- Elmira
- Hilltop Campus **(Thurs. noon-4 pm)**
- Horseheads – Village Plaza, Westinghouse Road **(Sat. 9 am-noon)**
- ITC
- JC Pavilion
- Newark Valley **(Sat. 9 am-noon)**
- Norwich **(Sat. 9 am-noon)**
- Oakdale Mall **(Thurs. & Fri. 9:30 am-7 pm**
Sat. 10 am-2 pm)

- Oneonta – 17C **(Sat. 10 am-2 pm)**
- Rochester
- Sayre, PA
- Spencer **(Sat. 9 am-noon)**
- Syracuse
- Town Square **(Mon.-Fri. 9 am-7 pm**
Sat. 9 am-5 pm)
- Two Rivers
- Vestal – University Center **(Sat. 10 am-2 pm)**
- Watkins Glen **(Sat. 9 am-noon)**
- Wyoos, PA

Phone Access Teller

- Local – 757-9411
- 800-638-3348 (Use service code “92” to block lost or stolen ATM cards from ATM use.)

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OPPORTUNITY AHEAD DESPITE U.S. DEBT DOWNGRADE

continued from page 4
Mac—for potential changes in credit rating. That said, further downward price moves in

the stock market are likely not attributable to the downgrade of U.S. debt, but rather escalating concerns

around the European crisis and decelerating global economic growth. In a sense, the downgrade of U.S. debt is not nearly as important to the market as is the potential downshift in the strength of the global economic recovery.

Stocks are cheap

While we have to acknowledge that the risks for a double-dip recession have been creeping up as of late, we continue to believe that it is extremely unlikely. The market appears to be pricing in a far greater likelihood for a return to recession than the data actually indicates. As a result, stock valuations are cheap versus historical averages. The S&P 500 Index trailing price-to-earnings (P/E) ratio, a measure of how much the market values a dollar’s worth of corporate earnings, is at 13 (the lowest since 1990) and the forward P/E ratio is 11 (same as March 2009 low). Essentially, the market is as cheap, or even cheaper, now than it was during the depths of the 2008-2009 recession.

The visceral, emotional

reactions to this downgrade are normal, but the S&P rating downgrade is more disappointing than it is material for capital markets.

Favorable fundamentals

While the market may react emotionally to the news over the short run, rational analysis will soon reveal that continued favorable economic fundamentals and attractive valuations point to potentially promising investment opportunities just around the corner. We believe that maintaining a cautious stance remains prudent, but systematic additions to risk at these levels will prove a wise investment as the year unfolds.

As always, if you have questions, call (607) 754-7900, ext. 358, and schedule an appointment with one of our financial consultants: Rob Bradley, RJ Barber, and Annette Connors.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recom-

mendations for any individual. To determine which investment(s) may be appropriate for you, consult me prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

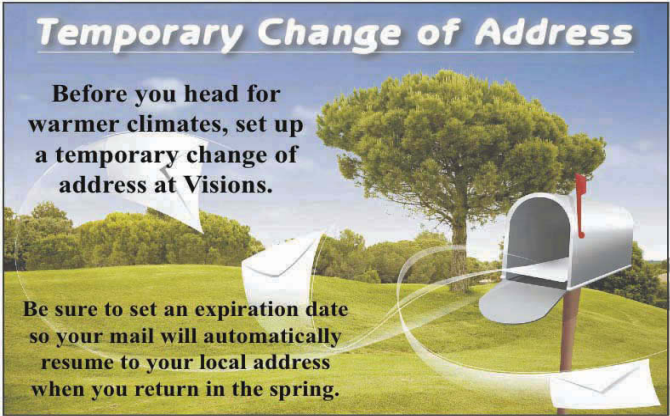
An obligation rated ‘AAA’ has the highest rating assigned by Standard & Poor’s. The obligor’s capacity to meet its financial commitment on the obligation is extremely strong.

The P/E ratio (price-to-earnings ratio) is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share. It is a financial ratio used for valuation: a higher P/E ratio means that investors are paying more for each unit of net income, so the stock is more expensive compared to one with lower P/E ratio.

Credit rating is an assessment of the credit worthiness of individuals and corporations. It is based upon the history of borrowing and repayment, as well as the availability of assets and extent of liabilities.

Stock investing may involve risk including loss of principal.

This research material has been prepared by LPL Financial. Tracking #7862541 (Exp.08/12) ■



Reply-To: <lrudalavage@lamortgageservices.com>
From: "Lori Rudalavage" <lrudalavage@lamortgageservices.com>
To: <stephlow@mindspring.com>
Subject: FW: Question on Properties with Gas leases
Date: Tue, 1 Jun 2010 10:43:52 -0400
Organization: LA Mortgage Services
X-Mailer: Microsoft Office Outlook 12.0
thread-index: AcriPIuC/2QhWoTjS5yOl5SysM0h+QfXCjkw
X-ELNK-Received-Info: spv=0;
X-ELNK-AV: 0
X-ELNK-Info: sbv=0; sbrc=.0; sbf=00; sbw=000;

Stephanie, this is the answer from Wells Fargo. Dave Coakley is my rep, and his response and Penny Cola responded to him, in agreement.

From: Jennifer Canfield [mailto:calbertj@ptd.net]
Sent: Thursday, April 22, 2010 12:55 PM
To: lrudalavage@lamortgageservices.com
Subject: Re: Question on Properties with Gas leases

Lori, I thank you very much. This is very important information. I will add it to my list and also let you know of anything else I hear or read.

Sincerely, Jen

----- Original Message -----

From: [Lori Rudalavage](#)
To: [Jeff Nepa](#) ; ['Jennifer Canfield'](#)
Cc: ['John Martines'](#)
Sent: Thursday, April 22, 2010 12:30 PM
Subject: FW: Question on Properties with Gas leases

I finally got an answer back from a top person at Wells Fargo. Here is their answer in regard to gas leases, especially in new areas!

From: PENNY.L.SMITH@wellsfargo.com [mailto:PENNY.L.SMITH@wellsfargo.com]
Sent: Thursday, April 22, 2010 12:32 PM
To: david.coakley@wellsfargo.com; lrudalavage@lamortgageservices.com
Subject: RE: Questino on Properties with Gas leases

Hi Dave,

So sorry for my delay in responding but you are correct Dave, a property with "Gas Leased" will be very difficult to obtain financing due to the potential hazard. Also if the Gas Leasing is new to the area there are too many unknowns such as will this have an effect on the marketability of a property, value etc.

From: Coakley, David
Sent: Friday, April 16, 2010 1:08 PM
To: lrudalavage@lamortgageservices.com
Cc: Smith, Penny L
Subject: RE: Questino on Properties with Gas leases

Lori: I will escalate this question and would expect an answer to take up to a week. In my experience over the past 22 years here at Wells Fargo, this would probably constitute an environmental concern and render "Gas leased" properties unable to receive loans from Wells Fargo. That's just my opinion, but I would be shocked if it were incorrect. Wells Fargo is extremely cautious and conservative regarding environmental concerns. The bigger question is this...will Fannie MAe, Freddie MAc or Ginnie Mae buy loans of this description. I doubt it. Thanmks!~Dave

DAVID COAKLEY

Mtg Wholesale Acct Exec-Prime, Institutional Lending
Wells Fargo Home Mortgage
M7437-011
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Hunt Valley, MD 21030
(410) 561-4641 Tel
410-218-1887 Cell
(410) 561-4670 Fax

david.coakley@wellsfargo.com

david.coakley@wellsfargo.com

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From: Lori Rudalavage [mailto:lrudalavage@lamortgageservices.com]
Sent: Friday, April 16, 2010 11:56 AM
To: Coakley, David
Subject: Questino on Properties with Gas leases

Dave,

Our area in the past few months have been siging over gas leases for Marcellas Shale. None of the local banks here in our area will do loans because of the uncertainty of what this gas releasing will do to properties. We are loaded with it right now. I know this is new to our local area in the past 9 months, but nationally this is being done all over, and I'm wondering how a big national bank handles the purchase or refinance of a property with a signed gas lease on it. I'm copying an email a realtor sent me. Read from Bottom UP!

From: Jennifer Canfield [mailto:calbertj@ptd.net]

Sent: Thursday, April 15, 2010 3:36 PM

To: lrudalavage@lamortgageservices.com

Subject: Re: Question from a realtor

Good afternoon Lori. I was wondering if you've had any success in finding out whether Wells Fargo have taken a position regarding loans on gas leased properties. If this is an imposition and you might have numbers for me to call, I would appreciate it very much. I hope not to be a pest. Sincerely, Jennifer

----- Original Message -----

From: [Lori Rudalavage](#)

To: ['Jennifer Canfield'](#)

Sent: Wednesday, April 14, 2010 4:09 PM

Subject: RE: Question from a realtor

I will be honest, I am finding this to be a problem with a lot of lenders. It's too new to see what everyone is doing, and it's really up to the discretion of the lender. When this came up in our office a few weeks ago...we called the local banks in the area, Citizens, FNCB, Fidelity, First Liberty NONE of them will do a loan with a gas lease. They say it is too new and they don't know what kind of catastrophic danger could happen from it. I live in a very highly populated gas lease area and I've been looking into it, because people are signing left and right, not realizing they might tie up financing they may need for a long long time. I am going to check around tonight with bigger lenders such as Wells Fargo & see what they say. , I don't deal with GMAC so I'm not sure their policy. BUT it is lender discretion. I know its new in our area, but it's not new all over, so maybe one of the bigger banks have established a policy for it. I will let you know tomorrow what I find out

Thanks

Lori

From: Jennifer Canfield [mailto:calbertj@ptd.net]

Sent: Wednesday, April 14, 2010 2:40 PM

To: lrudalavage@lamortgageservices.com

Subject: Question from a realtor

Lori, I receive your mailings and know your office to be active and reliable. I was wondering if you could help me determine if this is true: Yesterday I received a call from a purchaser who is getting his own home equity loan to pay for a small piece of investment property near where he lives. The purchase he is making is through my office and was scheduled to close soon. However, it is now on hold because he was informed at the last minute that the lender, which was to be GMAC, will not carry a property that is signed under a gas lease and his home property is already signed. May I ask, in your experience, are you finding lenders who will not accept properties that are under a lease? Last evening I heard from another source that some are even rejecting properties that are adjacent to leased land...could this be true? I thought you might be someone I could turn to in order to verify if these statements have any merit.

Sincerely, Jennifer Canfield, Broker

Calbert Real Estate Agency

Damascus, PA

Lori Rudalavage
LA Mortgage Services Inc
251 E Grove Street
Clarks Summit, PA 18411
570-586-3122 (Office)
570-586-2307 (Fax)



Marcellus Shale: Opportunities & Risks

Evaluating the Impact to Credit
Unions & their Members



Marcellus Shale & Income Taxes

Presented by:

Charles L. Kern, Chairman/CEO

Charles Kern & Company, PC

Types of Income

☐ Passive Income

- Sale of Mineral Rights
- Lease of Mineral Rights
- Lease Bonus Payments
- Royalty Payments

☐ Earned Income

- Income derived from an operating interest

☐ Capital Gains/Losses

- Income derived from sale of a capital asset
(example: selling mineral rights or land)

Passive vs. Earned Income

❑ Passive Income

- Income derived from the conduct of a trade or business in which the taxpayer does not materially participate. Generally, rental activity is a passive activity whether or not the taxpayer materially participates.

❑ Earned Income

- Income derived from actively and materially participating in a trade or business. Subject to Social Security and Medicare taxes.

❑ Capital Gain/Loss

- Minimum tax rate on gains is 15% (Federal) and 3.07% (PA) for individuals

Type of Entities

The types of entities that could receive income:

- Individuals
- C-Corporations
- S-Corporations
- Partnerships
- Trusts
- Estates

Entity/Income Matrix

		Individuals (Forms 1040 and PA-40)	C-Corporations (Form 1120 and PA RCT-101)	S-Corporations (Form 1120S, PA-20S and PA RCT-101)	Partnerships (Form 1065 and PA-65)	Trusts (Form 1041 and PA-41)	Estates (Form 1041 and PA-41)
Sale of Mineral Rights	Fed	1040 Page 1 Line 13 & Schedule D Line 1 or 8	1120 Page 1 Line 9 & Form 4797 (Line varies)	1120S Page 1 Line 4 & Form 4797 (Line varies)	1065 Page 1 Line 6 & Form 4797 (Line varies)	1041 Page 1 (Line varies) & Schedule D Line 1 or 8	1041 Page 1 (Line varies) & Schedule D Line 1 or 8
	PA	PA-40 Page 1 Line 5 & PA Schedule D Line 1	RCT-101*	PA-20S* & RCT-101*	PA-65*	PA-41 Page 1 Line 4 & Schedule DD/D Line 1	PA-41 Page 1 Line 4 & Schedule DD/D Line 1
Lease of Mineral Rights	Fed	1040 Page 1 Line 17 & Schedule E Page 1 Line 3	1120 Page 1 Line 6	1120S Page 1 Line 5 & Schedule K Line 3a	1065 Page 1 Line 7 & Schedule K Line 3a	1041 Page 1 Line 5 & Schedule E Page 1 Line 3	1041 Page 1 Line 5 & Schedule E Page 1 Line 3
	PA	PA-40 Page 1 Line 6 & PA Schedule E Line 1	RCT -101*	PA-20S* & RCT-101*	PA-65*	PA-41 Page 1 Line 5 & Schedule E Line 1	PA-41 Page 1 Line 5 & Schedule E Line 1
Lease Bonus Payment	Fed	1040 Page 1 Line 17 & Schedule E Page 1 Line 3	1120 Page 1 Line 6	1120S Page 1 Line 5 & Schedule K Line 3a	1065 Page 1 Line 7 & Schedule K Line 3a	1041 Page 1 Line 5 & Schedule E Page 1 Line 3	1041 Page 1 Line 5 & Schedule E Page 1 Line 3
	PA	PA-40 Page 1 Line 6 & PA Schedule E Line 1	RCT-101*	PA-20S* & RCT-101*	PA-65*	PA-41 Page 1 Line 5 & Schedule E Line 1	PA-41 Page 1 Line 5 & Schedule E Line 1
Royalty Payments	Fed	1040 Page 1 Line 17 & Schedule E Page 1 Line 4	1120 Page 1 Line 7	1120S Page 1 Line 5 & Schedule K Line 6	1065 Page 1 Line 7 & Schedule K Line 7	1041 Page 1 Line 5 & Schedule E Page 1 Line 4	1041 Page 1 Line 5 & Schedule E Page 1 Line 4
	PA	PA-40 Page 1 Line 6 & PA Schedule E Line 2	RCT-101*	PA-20S* & RCT-101*	PA-65*	PA-41 Page 1 Line 5 & Schedule E Line 2	PA-41 Page 1 Line 5 & Schedule E Line 2
	Fed	1040 Page 1 Line 12 & Schedule C Line 1	1120 Page 1 Line 1a	1120S Page 1 Line 1a & Schedule K Line 1	1065 Page 1 Line 1a & Schedule K Line 1	1041 Page 1 Line 3 & Schedule C Line 1	1041 Page 1 Line 3 & Schedule C Line 1

Form line numbers based on 2010 forms.

* - There is not a specific line for these PA forms. These forms use Federal income and adjust it for PA tax differences.

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Filling the Service Gap Created by Marcellus Shale Royalty Payments



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Agenda

- CUNA Brokerage Services Inc. (CBSI)
 - Vision and Mission
 - About CBSI
- Independent Advisor Program Option
- Other Options
- Benefits to the Credit Union
- Next Steps

CUNA Brokerage Services Inc. (CBSI)

About CBSI:

- Offers flexible brokerage services options to credit unions. Currently 347 credit union programs supported - Managed, Dual, Independent
- Largest Broker/Dealer dedicated to the Credit Union Space.
- Provides credit union members financial guidance and planning services
- Helps the Credit Union remain relevant to its members as they move through their financial life cycle
- Helps the financial services advisor be efficient, effective, and most importantly, focused on member needs

Independent Advisor Program

- Bring investment/insurance program capabilities to small and mid-size credit unions
- Expand CBSI distribution model and add an additional financial service program option for credit unions
- Grow market penetration for CUNA Mutual by working with programs previously too small to support a full time representative

Independent Advisor Program

Advisor characteristics

- Looking for advisors with 3-7 years experience, \$20 - \$30 million under management who can make an immediate impact on the program
- Preferred licensing requirements: Life and Health FINRA Series 7 and 65
- Independent advisor will attend CBSI Advisor training

Benefits for the Credit Union – Filling the Gap

- Establish a partnership with a local licensed independent financial professional - No need to add to employee head count
- Add non-interest income to their bottom line - With decreasing margins, there is a need to acquire new sources of income
- Enhance service to Members - Face to face access with an advisor to guide them to the best investment solutions for their needs

Benefits for the Credit Union – Filling the Gap

- Maintain competitiveness - Members are buying investment products and services, but not from them. CBSI is a resource to help retain and acquire profitable member relationships
- Business building referral opportunities - Good partnerships provide benefits to both parties, an independent financial advisor can be a source for sale of other Credit Union products and services
- Implementation and On-Going Program Management — CBSI provides a dedicated Independent Sales Manager to be their main point of contact to insure the partnership succeeds

What makes a Credit Union a good candidate for the Independent Advisor Program?

The Ideal Credit Union Client:

- May have been told they are too small to support an investment/insurance program (<\$250 Million in assets)
- They have a MemberCONNECT Program
- They may be unhappy with their current Broker Dealer relationship (LPL, FNIC etc.) - i.e. Rep, income, service
- They are looking for other sources of income
 - Lending is down
 - Deposits are a drag or hindrance on their bottom line

Other Options

- Remote Advisory
- Share a CBSI Advisor

Next Steps

- Think about the best option(s) for your Credit Union

- Reach out for more detailed information call:

Philip Lambing Jr.

Independent Advisor Manager
CUNA Brokerage Services, Inc.

4801 Redfield Rd.

Doylestown, PA 18902

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Three-Dimensional Appraisal: The Value Impact Of Subsurface Rights

Pennsylvania Credit Union Association

26 July 2011

Presented By

John Hosey

Chief Appraiser, DataQuick

The Concept of 3D Property Rights

Fee simple property ownership is not limited to the land, buildings and other improvements on the property's surface. The rights of ownership extend into both the ground and the air.

Conventional Residential Appraisal

Residential appraisal is a standard exercise:

- Typical market participants are residential home buyers and sellers
- Market trend analysis is simple (residential sales and listing activity)
- Highest and best use is residential
- Sales comparison and cost approaches are applied
- Contributory value of subsurface rights is not a significant consideration

Everything changes when valuable minerals are discovered!!!!!!

Valuable Minerals Change the Approach to Property Valuation

When minerals are found, estimating a property's market value depends on a complex and speculative evaluation of the surface rights, the mineral rights and the royalty rights.

- The Surface Rights:** must consider all of the elements of construction, extraction and production that disturb the surface and diminish value
- The Mineral Rights:** difficult to research, as mineral rights transactions are strictly confidential
- The Royalty Rights:** involves a discounted cash-flow analysis of speculative data from a variety of professionals

The discovery of valuable minerals changes market dynamics; the values of all properties in the area can be affected!

When the Minerals Are Gone

Surface rights may still be impacted

- Disturbances exist during the restoration period
- Closing one extraction site may not preclude the opening of another
- Underground subsidence and aquifer impacts can be long term
- Public perception does not change overnight, but local prosperity may

Contact Information

The Bureau of Topographic and Geologic Survey of the Pennsylvania Department of Conservation and Natural Resources:

<http://www.dcnr.state.pa.us/topogeo/index.aspx>

The Pennsylvania Bar Association:

<http://www.pabar.org/>

The Pennsylvania Department of Environmental Protection:

http://www.depweb.state.pa.us/portal/server.pt/community/dep_home/5968

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Environmental and Other Considerations for Lenders

Andy Giorgione

Buchanan, Ingersoll & Rooney

Real Estate Lending in Shale Regions

- A credit union that extends real estate loans in the Marcellus Shale region may have extra considerations. Two major issues are:
 - Potential environmental impacts from drilling and production
 - Lien position

Environmental Considerations

- Potential impacts unknown at present.
- Prudent to anticipate environmental consequences.
- Determine whether a property mortgaged for a loan is subject to a lease for development.
- Understand, a well might not be on the property, but the parcel that is your collateral could be under lease and development.

Liability, Property Value

- Lenders acting in foreclosure have some statutory protections from environmental liability:
 - Pennsylvania Hazardous Sites Cleanup Act “(Act)”
 - Fiduciary and Lender Environmental Liability Protection Act
 - Federal Comprehensive Environmental Response Compensation and Liability Act (“CERCLA”)
- Environmental impact or other drilling impact (wells, other surface facilities) could affect the value of the surface property as a security interest or in foreclosure.
- Access to the property could be affected as well.

Lien Rights, Subordination

- You may be approached about subordination of a mortgage to a lease. Things to consider:
 - Try to avoid terms that might make the credit union liable as successor lessor in the event of foreclosure.
 - Consider any notice the credit union is to supply lessee gas company in event of foreclosure.
 - Seek to minimize any hindrance in your ability to foreclose as a result of a notice provision.
 - Look for terms that would modify the mortgage or subject aspects of the mortgage to the gas lease. Are such provisions reasonable?
 - Ask for a copy of the oil or gas lease to understand the context of the proposed subordination.
 - Consider/determine any requirements placed on the credit union's ability to convey/transfer the property after foreclosure.

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Secondary Market Requirements on Loans Secured with Land with Drilling

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The Pennsylvania Credit Union Association
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Marcellus Shale: Opportunities and Risks

Evaluating the Impact to Credit Unions and their Members

Starting at the slide, “Three Dimensional Appraisal: The Value Impact of Subsurface Rights”

(40:30) John Hosey: Good afternoon everyone. Thank you all for attending and thanks to Rick and Molly for inviting me to participate today. My presentation will briefly cover the valuation concepts that are applicable not just to properties that are located in the Marcellus Shale regions, but to all properties that may contain some valuable mineral deposits. The first and most fundamental concept we all need to understand is that fee simple property ownership includes air rights, which are the rights to the undisturbed use and control of designated airspace above the land up to certain elevations, and also subsurface rights, which are rights to the use and profits of the underground portion of a property. So, just as the elements on the property's surface contribute to the overall property value, so do the elements in the air above and the ground below. (41:18) Now our particular focus here is what happens when the contributory value of the elements in the ground come into play and how these elements complicate the residential appraisal process, although the valuation concepts we are going to discuss apply not only to residential properties but really properties of any use.

So before valuable minerals are discovered, residential valuation is a pretty standard exercise and can be completed by any qualified and licensed residential appraiser. The market participants are typically homebuyers and sellers basing their decisions on the characteristics and conditions of the subject property's land (41:59), the buildings, and the improvements as compared to the characteristics and conditions of these same three elements for the surrounding properties in the competitive market area. In these situations, it's relatively easy for the appraiser to analyze the market behavior by looking at residential sales and listing activity, determining the subject property's highest and best use, and applying the sales comparison and cost approaches to reach a final value opinion (42:24). Everything changes, however, when the valuable minerals are discovered. Once it's been determined that there are valuable minerals in the ground in the subject property's area, the subject property's overall market value is now dependent on the value of three components. We're looking at the surface rights, the mineral rights, and the royalty rights for the future extraction of the minerals. This is no longer a standard appraisal assignment that can be completed by any residential appraisers (42:55). Appraising the property now requires an experienced, certified general appraiser who will need to incorporate the expert input of geologists and engineers to determine the quality and quantity of the mineral source, how difficult it is to access, how long the mineral source will last, and what ecological effects will result from its extraction. This appraiser will also need help from attorneys to research deed information and verify and interpret the legal and contractual issues regarding sale and/or lease terms for the mineral and royalty rights for the subject and comparable properties. The appraiser will also need to contact accountants, business appraisers, or other finance professionals to really estimate cash flows and discount rates in the valuation (43:40) of the royalty rights.

So first let's take a look at the process of valuing the surface rights. Now, the value of the surface rights is typically determined by the sales comparison approach, which we're familiar with in the residential context. But this approach has to consider more complex elements than the typical “residential” approach. The appraiser has to derive this value separately from the mineral rights. Land values exclusive of mineral rights are difficult to

document in areas where minerals are newly discovered, as the mineral rights are still intact when these properties typically sell. Mineral rights can be sold outright, they can be divided amongst multiple parties, or they can be leased. The appraiser will have to research public records and may have to enlist the help of an attorney (44:26) to collect and interpret the required deed information in order to do this analysis. Once the mineral rights values are extracted, the appraiser has to consider all of the items that disrupt the surface and diminished value during the mineral exploration, the construction, and operational phases of mineral extraction, and finally after the mineral is depleted. We'll discuss the elements that the appraiser needs to consider in the post-mineral depletion stage later in this presentation. But now let's take a look at the process of valuing the mineral rights themselves.

(44:59) Now depending on the circumstances, the appraiser will address the value of the mineral rights based either on the assumption that the royalty rights are conveyed at the same time as the mineral rights, or that the royalty rights are conveyed at some time in the future. If the appraiser assumes that the royalty rights will be conveyed in the future, the appraiser will attribute some value to the mineral rights during the intervening period before mining, extraction, or production of the minerals begins. The appraiser will either use values of minerals that were extracted in a sales comparison analysis for the surface rights, or research mineral deeds to determine fair market value. The buying and selling of mineral rights is not transparent (45:39) like a typical brokered real estate transaction. Mineral rights sales usually take place on a strictly confidential basis and access to these records is severely limited. If the appraiser assumes that the mineral and royalty rights are conveyed at the same time, the appraiser may assign no value to the mineral rights and might roll all this value into the analysis of the royalty rights. Estimating the value of the royalty rights is really the most complicated step of this valuation process (46:10) and it involves specialized knowledge beyond a real estate appraiser's scope. In fact, it may be advisable to have this portion of the interest valued separately by a business appraiser. First, geologists and engineers have to explore the subject property and determine the volume of the mineral reserves, the quality of the resource, the capacity for extraction, and the decline curve of this capacity over time as the volume of the minerals in the ground reduces. (46:38) In the case of natural gas the standard unit for measurement of capacity of extraction is 1,000 cubic feet of gas per day as measured at the well head. That's the metric that these geologists will use. After that step is completed now market demand for pricing the mineral has to be estimated over the entire extraction period by some finance professional the understands commodity pricing cycles and really, in the case of natural gas, is qualified to predict changes in the energy market (47:07). Then the appraiser needs to confirm how the actual royalties are structured for this subject, or, if the royalties are speculative, consult energy market experts to estimate how these royalties will typically be structured. Next the appraiser needs to consult with a business appraiser, a finance professional specializing in the energy industry to estimate the discount rates to apply to these royalties. Finally, once all that is done, the appraiser must apply the royalties on a speculative basis to the projected volumes over the extraction period, and then discount this revenue back to the current market value (47:45). So, it's complicated.

Overall, the discovery of valuable minerals complicates the appraisal process for those properties immediately affected, and also complicates the appraisal process for properties in the surrounding market area as well. As the highest and best use of properties in mineral rich areas transitions from residential to land available for mineral extraction- which is ultimately an industrial use- the entire market area is going to be impacted. (48:13) Buyers and sellers begin

to look at the value of their properties in terms of their income potential, and the influx of heavy industrial activity can dramatically affect the overall character of remote, residential and rural areas where valuable mineral deposits are typically discovered. Even appraisers of homes that are in the market area but that do not contain valuable mineral resources beneath their soil still must be aware of, and consider these market dynamic shifts in their valuation analyses.

(48:46) When all the minerals are gone, there are still issues that can complicate the appraisal process and affect long term property value. When a mineral is tapped out the owner or operator of the extraction facility is required to restore the land disturbed in the process of siting, drilling, and completing the extraction facility, and of extracting and producing the mineral itself. This includes a lot of things. It includes removal of all production and storage facilities, and supplies and equipment stored on site, and in the case of natural gas it includes actually plugging the well. (49:22) During this restoration period the subject property surface is still disturbed and its value is still going to be impacted. Depending upon the terms of the lease, contract, or deed granting the mineral rights, the closing of one extraction facility may not preclude the opening of a new one in another location on the subject property. But, after mineral extraction is truly complete, there's still some issues to consider. Subsidence of underground works or settlement of surface mined areas may not be readily apparent and can render a property unsafe for residential development and occupancy indefinitely (49:58). If the mineral is located below or near an aquifer, the extraction operation can pollute the aquifer or cause it to drain, leaving the property with a temporary or permanent lack of access to an onsite potable water source. Whether it's well founded or not, the fear of the possible future occurrence of issues that affect habitability (carries?) weight, can stigmatize a property or area and have an enduring effect on real estate values. (50:24) As we can demonstrate in any town where a major industrial employer disappears, the abrupt end of a mineral extraction operation can quickly change the prosperity of an area, leaving properties vacant and residential values depressed.

(50:45) If I can leave you with anything, it's just to be aware that mortgage lending in areas where valuable minerals are discovered really requires complex, costly, and ultimately highly speculative appraisal analyses. The best advice is to engage the most highly qualified panel of experts possible and to continue monitoring the property's value, as the initial assumptions applied will change as the mineral operations evolve, and certainly as the energy and real estate markets fluctuate. Included in this slide here (51:15) are our links to various online resources for deeper information on mineral rights and issues specific to Marcellus Shale natural gas reserves. Of course, as was noted early in the presentation, the PCUA has their own resources that you can access as well to help with these issues. This really concludes my portion of the presentation. Thank you for listening and I'll turn it over to Andy.

(51:44) Rick: Thank you John. We're getting close to the end of our presentation format, getting closer to the question and answer period. We're going to shift gears now and tackle some environmental and quasi-legal issues and considerations for lenders and here to do that is Andy Giorgione from the firm of Buchanan, Ingersoll and Rooney. Andy?

(52:11) Andy Giorgione: Alright, thank you Rick I appreciate it. John, thanks for your comments and support of the legal industry. Thank you very much. So there are a couple of issues that we want to focus on this afternoon as it relates to lending in the Marcellus Shale region, and that is what are the potential environmental impacts from drilling and production and how those

impacts could affect your lending habits, and then a lien position issue, and I'll explain that a little more as we proceed. As it relates to the environmental considerations, it would be impossible, I think, for today's presentation to debate the potential impacts from the Marcellus Shale. I think you read enough about it in the papers to understand that there are plenty of people on one side of the debate that think there's a lot of impacts and then there's others on the other side of the debate, particularly the industry themselves, that don't believe that there are any. (53:13) We'll just assume that there could be some potential ones for purposes of today's discussion. It's going to be prudent for you to anticipate those. We'll talk about some of the environmental laws- and I'll identify those in a second- that protect lenders, but an important point on this slide that I want you to focus on is that even if there isn't evidence necessarily on a parcel of land that you may be providing funding for- evidence of Marcellus Shale drilling- don't assume that the parcel is not subject to some sort of lease or royalty agreement. That's just a factor of how the Marcellus Shale works and how the drilling works. You may know a little bit about it, but the drilling is not just straight up and down, it goes laterally, so I mention this point because I think it's very prudent that (54:10) with any kind of lending activity in the Marcellus Shale region it should be standard course for credit unions to be asking for any existing lease agreements, or surface or mineral rights agreements.

Here are some of the statutory protections (54:32) we talked about. I cite a couple of the acts here: the Pennsylvania Hazardous Sites Cleanup Act, the Fiduciary and Lender Environmental Liability Protection Act, and the last act which is CERCLA, and these do protect lenders from environmental liability. I myself am not an expert in all these acts, so I can't walk you through them; I just want to identify them. Certainly they are acts that need to be cited in your particular documents.

A couple of other environmental issues (55:05) and then we'll move on to the lien rights and subordination issues. The environmental impact that could affect the value of the surface property- that could be in the instance of where you have a well, or you have roads around a property, because a lot of roadwork is going on right now, a lot of private roads are being built by the private drilling companies, so you need to be aware of those. And then of course, access to the properties and how the drillers are getting access to some of the properties, so be very cognizant of that.

Let's talk a little bit about the subordination issue and lien rights. I think we're seeing in the industry right now (55:45) that the drilling companies are acting much like banks when they're asking for subordination. Most of the subordination agreements seem to be fairly standard, but there's a couple of things I just want to walk you through and make sure you consider. It's the typical issues that I think you normally see in the subordination context. Obviously, you don't want any kind of subordination that provides that the credit union is a successor and liability in the event of foreclosure, meaning you're not beholden to the Marcellus Shale companies to do anything other than be a bank and foreclose and do what you need to do to protect yourself. (56:32) Let's make sure that in any of the subordination documents that there are appropriate notices both ways. Particularly in a foreclosure you want to be giving notice to the gas company but you want to make sure that any action they're taking under even their leases, that you as a credit union are getting notice. Obviously you don't want any hindrance in the document that affects your ability to foreclose. You don't want any language at all in these documents that would modify your mortgage or any of your mortgage documents. I

think that terms like that would be unreasonable and you should be able to push back on those. You can see the final couple of points: asking for copies of those oil and gas leases, we talked about that earlier. Again, if you don't see Marcellus Shale activity on the site, be cognizant that it still could be impacting subsurface rights on the land so make sure you just ask for any of those lease documents. Finally, make sure that there are, following the point on your rights of foreclosure, no impacts on your ability to follow through with the foreclosure (57:53) process, and be able to transfer land to a subsequent owner. That's all I have. Thank you. (58:01)

Rick: Alright, thanks Andy. Is it fair to say that with some of these things we've just scratched the surface and when a credit union is confronting a transaction they might need help from either in-house or retained counsel to walk through some of these issues?

Andy Giorgione: I think certainly in reviewing the lease documents. I would think it should almost be a standard practice for any credit union now- maybe even no matter where you are in the Commonwealth of Pennsylvania- to, when you're going through the mortgage process with your borrowers, just have a standard question to ask whether there are any Marcellus Shale activity on the property, are there any leases (58:36), or anything affecting either the surface or subsurface rights on the property. Then, if there are, then I think counsel would be very helpful in structuring the mortgages and the leases and what the expectations are of the drilling companies.

Rick: Great point, thank you Andy (58:54). We're going to bat out of order for one minute. Chuck Kern wanted to follow up on one of the other points that John Hosey makes, so we're going to give Chuck an opportunity to weigh in here again.

Chuck Kern: John referred to business appraisals and appraisers. I am one of those people. I have two certifications in that area and I have two in (inaudible) accounting, and something that John mentioned is very important. At one point John used the term "fair market value" (59:30), at another time he used "fair value." If your customers come in to you and say they're interested in learning the fair market value of something they own- if they are businesses and they have shareholder agreements that call for their business to be valued, a lot of times it will refer to fair market value or fair value. I can assure you if it's a small, closely held business, fair market value does not mean what your customer thinks it means. There is, in fact, an international glossary of business valuation terms. Fair market value has a very precise meaning, fair value has a precise meaning, and business value has a precise meaning. If your customer holds part of a small, closely owned business, I can assure you that they don't know the phrase- that they don't know the label- that they're thinking "investment value." Fair market value, for example, says that you have a willing buyer and a willing seller that are not under compulsion to buy or sell (1:00:52). The reason you have a shareholder's agreement is to force somebody, to require them, to buy or sell. They are probably NOT a willing buyer, or they're NOT a willing seller. If you go to the internal revenue code definition of fair market value, or if you go to the International Glossary of Business Valuation Terms, you're going to find that definition of fair market value. But what your client probably means is what's called investment value. So, John's right, can't let just anybody- because that's the first question the business appraiser should ask- what is the purpose, and what is the standard of value? Any until you answer that question the likelihood of getting a bad number is extremely high. (1:01:41) Thank you.

Rick: Sure. Thank you Chuck. John, any amplification or emphasis?

John Hosey: No, just to reiterate that that is an essential point and exactly the reason why you have to consult a variety of experts in this process, because of these nuances that either your average residential appraiser will not understand or certainly that your clients may not understand, and they need as much help as possible to be walked through this process.

Rick: Alright, thank you John. (1:02:17) Last in our batting order today are Cos Manzo of First Heritage Financial and Paul Whitman of Cuna Mutual Group Mortgage Insurance Company. They don't have a formal presentation to offer, they've been monitoring our discussion and we're going to turn to them for just an open-ended question, I guess, both to Cos and to Paul. There's a lot of information on the table. Marcellus Shale is, I guess, changing the complexion of mortgage lending in the Commonwealth and maybe even having some impact on how the secondary market may look to these loans. What are your thoughts or suggestions, gentlemen?

(1:07:03) Cosimo Manzo: Thank you very much. This is Cos and if I can use an analogy this is like a Rubik's cube today. We're going to have to be moving these pieces around til they align. Just let me explain what I've been doing behind the scenes. I've been in communication with Fannie Mae. Fannie Mae is working on hosting a webinar in the fourth quarter addressing the secondary market's position and Fannie Mae's position on Marcellus Shale properties. What I would just ask everyone to do today if they have a question dealing specifically with (inaudible) mortgages, if you would kindly email me that question I will then forward it to Fannie Mae. If they can begin looking at them, analyzing them, and compiling an agenda; when they have enough to begin their actual planning process, Rick I'm going to ask the association if they would act as host, and Fannie will actually have the webinar but maybe we can contact the credit unions much like we do today and give them the link to access this Fannie Mae webinar sometime in the fourth quarter. It's new to everyone, especially in the secondary market, (1:04:25) so if we could get your general concerns and as we can see with the legal ramifications and those presented from an accounting perspective, and it's really Pandora's Box. We really need to get our arms around this so we can lend successfully, and then rather than repaying these loans sell some of these loans and make sure that the secondary market will be active purchasers. My email address is right on the slide that's in front of you so if anyone from all the listeners has any questions then please email them to me. I will then forward them to Fannie Mae and then I will get back to the association with plenty of time to market Fannie's webinar, at which time we can probably get specific, because this is new to them as well.

Rick: Paul?

Paul Whitman: (1:05:17) I think from our perspective the key point that we've brought out from all is that full disclosure is what we're looking for. Just having drilling or mineral rights on the property itself wouldn't necessarily hurt a transaction from a mortgage insurance perspective. If you look at right now, a lot of Pennsylvania properties have mineral rights or a (inaudible) assigned to the deed so that's not necessarily as big of a deal but if you're doing an appraisal or anything and it showed a drill on the property, we would want to know about it. We would ask questions about it, the appraiser would have to mention it and the effect on the value of the property. (1:06:01) It would raise more questions going forward (inaudible). I think Andy had said something before about how maybe with your applications packages or right up front, find

out if there are any leases or contracts on the property. Like I said, the key is going to be full disclosure going forward. This is changing every day from our perspective- we're kind of looking a little bit towards Fannie and Freddie, looking to get guidance from them, but it's an evolving process for us because it's still new.

Cos Manzo: And if I could just reiterate again over and over about the appraisal, we really have to clarify for ourselves, as mortgage lenders, what type of appraisal will be acceptable, not only to the credit unions who will be funding the loan but equally as important to a second market investor who may be equally interested in purchasing the loan. We don't have that clear cut direction yet, and obviously as we saw today with the discussion on the appraisals, there are several different choices (1:07:03) that have to be made and we just need to get some clarification so we can put it on the right track for everyone.

Rick: Ok, very good, thank you Cos and Paul. That's going to wind up the presentation portion of our program this afternoon. I'd like to switch to questions now. So operator, if you'd like to instruct our conferees how to ask a question...(1:07:39)

Fannie Mae Single Family / 2011 Servicing Guide / Part III: General Servicing Functions / III, Chapter 7: Releases of Security (01/31/03) / III, 702: Release of Oil, Gas, or Mineral Rights (01/31/03)

III, 702: Release of Oil, Gas, or Mineral Rights (01/31/03)

A property owner may want to lease oil, gas, or mineral rights to a property to a drilling firm or partnership in return for a royalty interest equal to a designated percentage of the value of the oil, gas, or other minerals that are removed from the property. When requesting Fannie Mae's approval of the leasing of oil, gas, or mineral rights, the borrower must submit a copy of the proposed lease agreement to the servicer for review. Before agreeing to a release of oil, gas, or mineral rights, the servicer must consider the extent to which the property (and neighboring properties) may be affected by the exercise of the rights covered in the lease. In particular, the following should be taken into consideration:

- ***The extent to which the rights granted by the lease infringe on the property owner's rights.*** For example, if the lease permits removal of deposits by directional exploration from an area outside of the property, there may be little or no adverse effect, depending on the location of the exploration area and the attitude of the community. On the other hand, if the lease allows for complete ingress and egress to explore any part of the property or to store or install equipment on it, the property may no longer have any real value as a residential property.
- ***Any hazards, nuisances, or damages that may result from the exercise of the rights granted by the lease.*** In mineral areas where subsidence from directional mining may be a problem, the potential extent of a hazard or nuisance can be determined by reviewing the past history of such operations in the locality and taking into consideration the property's subsurface soil structure and the extent and depth of the proposed mining. In oil-producing areas, hazards, nuisances, and damages can result from drilling operation, ingress and egress, storage, pipeline transportation, fire, explosion, or gusher wells. The effect of these potential hazards or nuisances on the value of the property would depend on their intensity and closeness and the community's attitude toward such hazards or nuisances. For example, in areas in which oil exploration is a major part of the economy, the risk may be considered acceptable, whereas it might be unacceptable in areas in which such exploration has a minor effect on the economy.

As long as the granting of oil, gas, or mineral leases is customary in the area and the exercise of the lease will not have a material effect on the value of the property, prevent use of the property as a residence, or expose the residents to serious health or safety hazards, the servicer may approve the lease on Fannie Mae's behalf and waive Fannie Mae's interest in any royalties under the current terms of the lease. If some, but not all, of these conditions are met, the servicer must submit the *Application for Release of Security* (Form 236) and its recommendation to its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center. If none of these conditions are met, the servicer should deny the request. The servicer does not need to obtain Fannie Mae's concurrence to deny a request to approve a lease of oil, gas, or mineral rights, but if it prefers to discuss the situation before making a final decision, it may contact its Portfolio Manager, Servicing Consultant, or the National Servicing Organization's Servicer Solutions Center.

After Recording Return To:

_____ [Space Above This Line For Recording Data] _____

MORTGAGE

WORDS USED OFTEN IN THIS DOCUMENT

(A) **“Security Instrument.”** This document, which is dated _____, together with all Riders to this document, will be called the “Security Instrument.”

(B) **“Borrower.”** _____, whose address is _____

_____ sometimes will be called “Borrower” and sometimes simply “I” or “me.”

(C) **“Lender.”** _____ will be called “Lender.” Lender is a corporation or association which exists under the laws of _____. Lender’s address is _____.

(D) **“Note.”** The note signed by Borrower and dated _____, will be called the “Note.” The Note shows that I owe Lender _____ Dollars (U.S. \$_____) plus interest and other amounts that may be payable. I have promised to pay this debt in Periodic Payments and to pay the debt in full by _____.

(E) **“Property.”** The property that is described below in the section titled “Description of the Property,” will be called the “Property.”

(F) **“Loan.”** The “Loan” means the debt evidenced by the Note, plus interest, any prepayment charges and late charges due under the Note, and all sums due under this Security Instrument, plus interest.

(G) **“Sums Secured.”** The amounts described below in the section titled “Borrower’s Transfer to Lender of Rights in the Property” sometimes will be called the “Sums Secured.”

(H) “Riders.” All Riders attached to this Security Instrument that are signed by Borrower will be called “Riders.” The following Riders are to be signed by Borrower [check box as applicable]:

- | | | |
|--|---|---|
| <input type="checkbox"/> Adjustable Rate Rider | <input type="checkbox"/> Condominium Rider | <input type="checkbox"/> Second Home Rider |
| <input type="checkbox"/> Balloon Rider | <input type="checkbox"/> Planned Unit Development Rider | <input type="checkbox"/> Other(s) [specify] _____ |
| <input type="checkbox"/> 1-4 Family Rider | <input type="checkbox"/> Biweekly Payment Rider | |

(I) “Applicable Law.” All controlling applicable federal, state and local statutes, regulations, ordinances and administrative rules and orders (that have the effect of law) as well as all applicable final, non-appealable, judicial opinions will be called “Applicable Law.”

(J) “Community Association Dues, Fees, and Assessments.” All dues, fees, assessments, and other charges that are imposed on Borrower or the Property by a condominium association, homeowners association or similar organization will be called “Community Association Dues, Fees, and Assessments.”

(K) “Electronic Funds Transfer.” “Electronic Funds Transfer” means any transfer of money, other than by check, draft, or similar paper instrument, which is initiated through an electronic terminal, telephonic instrument, computer, or magnetic tape so as to order, instruct, or authorize a financial institution to debit or credit an account. Some common examples of an Electronic Funds Transfer are point-of-sale transfers (where a card such as an asset or debit card is used at a merchant), automated teller machine (or ATM) transactions, transfers initiated by telephone, wire transfers, and automated clearinghouse transfers.

(L) “Escrow Items.” Those items that are described in Section 3 will be called “Escrow Items.”

(M) “Miscellaneous Proceeds.” “Miscellaneous Proceeds” means any compensation, settlement, award of damages, or proceeds paid by any third party (other than Insurance Proceeds, as defined in, and paid under the coverage described in, Section 5) for: (i) damage to, or destruction of, the Property; (ii) Condemnation or other taking of all or any part of the Property; (iii) conveyance in lieu of Condemnation or sale to avoid Condemnation; or (iv) misrepresentations of, or omissions as to, the value and/or condition of the Property. A taking of the Property by any governmental authority by eminent domain is known as “Condemnation.”

(N) “Mortgage Insurance.” “Mortgage Insurance” means insurance protecting Lender against the nonpayment of, or default on, the Loan.

(O) “Periodic Payment.” The regularly scheduled amount due for (i) principal and interest under the Note, and (ii) any amounts under Section 3 will be called “Periodic Payment.”

(P) “RESPA.” “RESPA” means the Real Estate Settlement Procedures Act (12 U.S.C. §2601 et seq.) and its implementing regulation, Regulation X (24 C.F.R. Part 3500), as they might be amended from time to time, or any additional or successor legislation or regulation that governs the same subject matter. As used in this Security Instrument, “RESPA” refers to all requirements and restrictions that are imposed in regard to a “federally related mortgage loan” even if the Loan does not qualify as a “federally related mortgage loan” under RESPA.

BORROWER'S TRANSFER TO LENDER OF RIGHTS IN THE PROPERTY

I mortgage, grant and convey the Property to Lender subject to the terms of this Security Instrument. This means that, by signing this Security Instrument, I am giving Lender those rights that are stated in this Security Instrument and also those rights that Applicable Law gives to lenders who hold mortgages on real property. I am giving Lender these rights to protect Lender from possible losses that might result if I fail to:

- (A) Pay all the amounts that I owe Lender as stated in the Note including, but not limited to, all renewals, extensions and modifications of the Note;
- (B) Pay, with interest, any amounts that Lender spends under this Security Instrument to protect the value of the Property and Lender's rights in the Property; and
- (C) Keep all of my other promises and agreements under this Security Instrument and the Note.

DESCRIPTION OF THE PROPERTY

I give Lender rights in the Property described in (A) through (G) below:

- (A) The Property which is located at _____,
[Street]
_____, New York _____.
[City, Town or Village] [Zip Code]

This Property is in _____ County. It has the following legal description:

- (B) All buildings and other improvements that are located on the Property described in subsection (A) of this section;
- (C) All rights in other property that I have as owner of the Property described in subsection (A) of this section. These rights are known as "easements and appurtenances attached to the Property;"
- (D) All rights that I have in the land which lies in the streets or roads in front of, or next to, the Property described in subsection (A) of this section;
- (E) All fixtures that are now or in the future will be on the Property described in subsections (A) and (B) of this section;
- (F) All of the rights and property described in subsections (B) through (E) of this section that I acquire in the future; and
- (G) All replacements of or additions to the Property described in subsections (B) through (F) of this section and all Insurance Proceeds for loss or damage to, and all Miscellaneous Proceeds of the Property described in subsections (A) through (F) of this section.

BORROWER'S RIGHT TO MORTGAGE THE PROPERTY AND BORROWER'S OBLIGATION TO DEFEND OWNERSHIP OF THE PROPERTY

I promise that: (A) I lawfully own the Property; (B) I have the right to mortgage, grant and convey the Property to Lender; and (C) there are no outstanding claims or charges against the Property, except for those which are of public record.

I give a general warranty of title to Lender. This means that I will be fully responsible for any losses which Lender suffers because someone other than myself has some of the rights in the Property which I promise that I have. I promise that I will defend my ownership of the Property against any claims of such rights.

PLAIN LANGUAGE SECURITY INSTRUMENT

This Security Instrument contains promises and agreements that are used in real property security instruments all over the country. It also contains other promises and agreements that vary in different parts of the country. My promises and agreements are stated in "plain language."

COVENANTS

I promise and I agree with Lender as follows:

1. Borrower's Promise to Pay. I will pay to Lender on time principal and interest due under the Note and any prepayment, late charges and other amounts due under the Note. I will also pay all amounts for Escrow Items under Section 3 of this Security Instrument.

Payments due under the Note and this Security Instrument shall be made in U.S. currency. If any of my payments by check or other payment instrument is returned to Lender unpaid, Lender may require my payment be made by: (a) cash; (b) money order; (c) certified check, bank check, treasurer's check or cashier's check, drawn upon an institution whose deposits are insured by a federal agency, instrumentality, or entity; or (d) Electronic Funds Transfer.

Payments are deemed received by Lender when received at the location required in the Note, or at another location designated by Lender under Section 15 of this Security Instrument. Lender may return or accept any payment or partial payment if it is for an amount that is less than the amount that is then due. If Lender accepts a lesser payment, Lender may refuse to accept a lesser payment that I may make in the future and does not waive any of its rights. Lender is not obligated to apply such lesser payments when it accepts such payments. If interest on principal accrues as if all Periodic Payments had been paid when due, then Lender need not pay interest on unapplied funds. Lender may hold such unapplied funds until I make payments to bring the Loan current. If I do not do so within a reasonable period of time, Lender will either apply such funds or return them to me. In the event of foreclosure, any unapplied funds will be applied to the outstanding principal balance immediately prior to foreclosure. No offset or claim which I might have now or in the future against Lender will relieve me from making payments due under the Note and this Security Instrument or keeping all of my other promises and agreements secured by this Security Instrument.

2. Application of Borrower's Payments and Insurance Proceeds. Unless Applicable Law or this Section 2 requires otherwise, Lender will apply each of my payments that Lender accepts in the following order:

First, to pay interest due under the Note;

Next, to pay principal due under the Note; and

Next, to pay the amounts due Lender under Section 3 of this Security Instrument.
Such payments will be applied to each Periodic Payment in the order in which it became due.
Any remaining amounts will be applied as follows:

First, to pay any late charges;

Next, to pay any other amounts due under this Security Instrument; and

Next, to reduce the principal balance of the Note.

If Lender receives a payment from me for a late Periodic Payment which includes a sufficient amount to pay any late charge due, the payment may be applied to the late Periodic Payment and the late charge. If more than one Periodic Payment is due, Lender may apply any payment received from me: First, to the repayment of the Periodic Payments that are due if, and to the extent that, each payment can be paid in full; Next, to the extent that any excess exists after the payment is applied to the full payment of one or more Periodic Payments, such excess may be applied to any late charges due.

Voluntary prepayments will be applied as follows: First, to any prepayment charges; and
Next, as described in the Note.

Any application of payments, Insurance Proceeds, or Miscellaneous Proceeds to principal due under the Note will not extend or postpone the due date of the Periodic Payments or change the amount of those payments.

3. Monthly Payments For Taxes And Insurance.

(a) Borrower's Obligations. I will pay to Lender all amounts necessary to pay for taxes, assessments, water charges, sewer rents and other similar charges, ground leasehold payments or rents (if any), hazard or property insurance covering the Property, flood insurance (if any), and any required Mortgage Insurance, or a Loss Reserve as described in Section 10 in the place of Mortgage Insurance. Each Periodic Payment will include an amount to be applied toward payment of the following items which are called "Escrow Items:"

(1) The taxes, assessments, water charges, sewer rents and other similar charges, on the Property which under Applicable Law may be superior to this Security Instrument as a Lien on the Property. Any claim, demand or charge that is made against property because an obligation has not been fulfilled is known as a "Lien;"

(2) The leasehold payments or ground rents on the Property (if any);

(3) The premium for any and all insurance required by Lender under Section 5 of this Security Instrument;

(4) The premium for Mortgage Insurance (if any);

(5) The amount I may be required to pay Lender under Section 10 of this Security Instrument instead of the payment of the premium for Mortgage Insurance (if any); and

(6) If required by Lender, the amount for any Community Association Dues, Fees, and Assessments.

After signing the Note, or at any time during its term, Lender may include these amounts as Escrow Items. The monthly payment I will make for Escrow Items will be based on Lender's estimate of the annual amount required.

I will pay all of these amounts to Lender unless Lender tells me, in writing, that I do not have to do so, or unless Applicable Law requires otherwise. I will make these payments on the same day that my Periodic Payments of principal and interest are due under the Note.

The amounts that I pay to Lender for Escrow Items under this Section 3 will be called "Escrow Funds." I will pay Lender the Escrow Funds for Escrow Items unless Lender waives my obligation to pay the Escrow Funds for any or all Escrow Items. Lender may waive my obligation to pay to Lender Escrow Funds for any or all Escrow Items at any time. Any such waiver must be in writing. In the event of such waiver, I will pay directly, when and where payable, the

amounts due for any Escrow Items for which payment of Escrow Funds has been waived by Lender and, if Lender requires, will promptly send to Lender receipts showing such payment within such time period as Lender may require. My obligation to make such payments and to provide receipts will be considered to be a promise and agreement contained in this Security Instrument, as the phrase "promises and agreements" is used in Section 9 of this Security Instrument. If I am obligated to pay Escrow Items directly, pursuant to a waiver, and I fail to pay the amount due for an Escrow Item, Lender may pay that amount and I will then be obligated under Section 9 of this Security Instrument to repay to Lender. Lender may revoke the waiver as to any or all Escrow Items at any time by a notice given in accordance with Section 15 of this Security Instrument and, upon the revocation, I will pay to Lender all Escrow Funds, and in amounts, that are then required under this Section 3.

I promise to promptly send to Lender any notices that I receive of Escrow Item amounts to be paid. Lender will estimate from time to time the amount of Escrow Funds I will have to pay by using existing assessments and bills and reasonable estimates of the amount I will have to pay for Escrow Items in the future, unless Applicable Law requires Lender to use another method for determining the amount I am to pay.

Lender may, at any time, collect and hold Escrow Funds in an amount sufficient to permit Lender to apply the Escrow Funds at the time specified under RESPA. Applicable Law puts limits on the total amount of Escrow Funds Lender can at any time collect and hold. This total amount cannot be more than the maximum amount a lender could require under RESPA. If there is another Applicable Law that imposes a lower limit on the total amount of Escrow Funds Lender can collect and hold, Lender will be limited to the lower amount.

(b) Lender's Obligations. Lender will keep the Escrow Funds in a savings or banking institution which has its deposits insured by a federal agency, instrumentality, or entity, or in any Federal Home Loan Bank. If Lender is such a savings or banking institution, Lender may hold the Escrow Funds. Lender will use the Escrow Funds to pay the Escrow Items no later than the time allowed under RESPA or other Applicable Law. Lender will give to me, without charge, an annual accounting of the Escrow Funds. That accounting will show all additions to and deductions from the Escrow Funds and the reason for each deduction.

Lender may not charge me for holding or keeping the Escrow Funds, for using the Escrow Funds to pay Escrow Items, for making a yearly analysis of my payment of Escrow Funds or for receiving, or for verifying and totaling assessments and bills. However, Lender may charge me for these services if Lender pays me interest on the Escrow Funds and if Applicable Law permits Lender to make such a charge. Lender will not be required to pay me any interest or earnings on the Escrow Funds unless either (1) Lender and I agree in writing that Lender will pay interest on the Escrow Funds, or (2) Applicable Law requires Lender to pay interest on the Escrow Funds.

(c) Adjustments to the Escrow Funds. Under Applicable Law, there is a limit on the amount of Escrow Funds Lender may hold. If the amount of Escrow Funds held by Lender exceeds this limit, then there will be an excess amount and RESPA requires Lender to account to me in a special manner for the excess amount of Escrow Funds.

If, at any time, Lender has not received enough Escrow Funds to make the payments of Escrow Items when the payments are due, Lender may tell me in writing that an additional amount is necessary. I will pay to Lender whatever additional amount is necessary to pay the Escrow Items when the payments are due, but the number of payments will not be more than 12.

When I have paid all of the Sums Secured, Lender will promptly refund to me any Escrow Funds that are then being held by Lender.

4. Borrower's Obligation to Pay Charges, Assessments And Claims. I will pay all taxes, assessments, water charges, sewer rents and other similar charges, and any other charges

and fines that may be imposed on the Property and that may be superior to this Security Instrument. I will also make ground rents or payments due under my lease if I am a tenant on the Property and Community Association Dues, Fees, and Assessments (if any) due on the Property. If these items are Escrow Items, I will do this by making the payments as described in Section 3 of this Security Instrument. In this Security Instrument, the word "Person" means any individual, organization, governmental authority or other party.

I will promptly pay or satisfy all Liens against the Property that may be superior to this Security Instrument. However, this Security Instrument does not require me to satisfy a superior Lien if: (a) I agree, in writing, to pay the obligation which gave rise to the superior Lien and Lender approves the way in which I agree to pay that obligation, but only so long as I am performing such agreement; (b) in good faith, I argue or defend against the superior Lien in a lawsuit so that in Lender's opinion, during the lawsuit, the superior Lien may not be enforced, but only until the lawsuit ends; or (c) I secure from the holder of that other Lien an agreement, approved in writing by Lender, that the Lien of this Security Instrument is superior to the Lien held by that Person. If Lender determines that any part of the Property is subject to a superior Lien, Lender may give Borrower a notice identifying the superior Lien. Within 10 days of the date on which the notice is given, Borrower shall pay or satisfy the superior Lien or take one or more of the actions mentioned in this Section 4.

Lender also may require me to pay a one-time charge for an independent real estate tax reporting service used by Lender in connection with the Loan, unless Applicable Law does not permit Lender to make such a charge.

5. Borrower's Obligation to Maintain Hazard Insurance or Property Insurance. I will obtain hazard or property insurance to cover all buildings and other improvements that now are, or in the future will be, located on the Property. The insurance will cover loss or damage caused by fire, hazards normally covered by "Extended Coverage" hazard insurance policies, and any other hazards for which Lender requires coverage, including, but not limited to earthquakes and floods. The insurance will be in the amounts (including, but not limited to, deductible levels) and for the periods of time required by Lender. What Lender requires under the last sentence can change during the term of the Loan. I may choose the insurance company, but my choice is subject to Lender's right to disapprove. Lender may not disapprove my choice unless the disapproval is reasonable. Lender may require me to pay either (a) a one-time charge for flood zone determination, certification and tracking services, or (b) a one-time charge for flood zone determination and certification services and subsequent charges each time remappings or similar changes occur which reasonably might affect the flood zone determination or certification. If I disagree with the flood zone determination, I may request the Federal Emergency Management Agency to review the flood zone determination and I promise to pay any fees charged by the Federal Emergency Management Agency for its review.

If I fail to maintain any of the insurance coverages described above, Lender may obtain insurance coverage, at Lender's option and my expense. Lender is under no obligation to purchase any particular type or amount of coverage. Therefore, such coverage will cover Lender, but might or might not protect me, my equity in the Property, or the contents of the Property, against any risk, hazard or liability and might provide greater or lesser coverage than was previously in effect. I acknowledge that the cost of the insurance coverage so obtained might significantly exceed the cost of insurance that I could have obtained. Any amounts disbursed by Lender under this Section 5 will become my additional debt secured by this Security Instrument. These amounts will bear interest at the interest rate set forth in the Note from the date of disbursement and will be payable with such interest, upon notice from Lender to me requesting payment.

All of the insurance policies and renewals of those policies will include what is known as a "Standard Mortgage Clause" to protect Lender and will name Lender as mortgagee and/or as an additional loss payee. The form of all policies and renewals will be acceptable to Lender. Lender will have the right to hold the policies and renewal certificates. If Lender requires, I will promptly give Lender all receipts of paid premiums and renewal notices that I receive.

If I obtain any form of insurance coverage, not otherwise required by Lender, for damage to, or destruction of, the Property, such policy will include a Standard Mortgage Clause and will name Lender as mortgagee and/or as an additional loss payee.

If there is a loss or damage to the Property, I will promptly notify the insurance company and Lender. If I do not promptly prove to the insurance company that the loss or damage occurred, then Lender may do so.

The amount paid by the insurance company for loss or damage to the Property is called "Insurance Proceeds." Unless Lender and I otherwise agree in writing, any Insurance Proceeds, whether or not the underlying insurance was required by Lender, will be used to repair or to restore the damaged Property unless: (a) it is not economically feasible to make the repairs or restoration; (b) the use of the Insurance Proceeds for that purpose would lessen the protection given to Lender by this Security Instrument; or (c) Lender and I have agreed in writing not to use the Insurance Proceeds for that purpose. During the period that any repairs or restorations are being made, Lender may hold any Insurance Proceeds until it has had an opportunity to inspect the Property to verify that the repair work has been completed to Lender's satisfaction. However, this inspection will be done promptly. Lender may make payments for the repairs and restorations in a single payment or in a series of progress payments as the work is completed. Unless Lender and I agree otherwise in writing or unless Applicable Law requires otherwise, Lender is not required to pay me any interest or earnings on the Insurance Proceeds. I will pay for any public adjusters or other third parties that I hire, and their fees will not be paid out of the Insurance Proceeds. If the repair or restoration is not economically feasible or if it would lessen Lender's protection under this Security Instrument, then the Insurance Proceeds will be used to reduce the amount that I owe to Lender under this Security Instrument. Such Insurance Proceeds will be applied in the order provided for in Section 2. If any of the Insurance Proceeds remain after the amount that I owe to Lender has been paid in full, the remaining Insurance Proceeds will be paid to me.

If I abandon the Property, Lender may file, negotiate and settle any available insurance claim and related matters. If I do not answer, within 30 days, a notice from Lender stating that the insurance company has offered to settle a claim, Lender may negotiate and settle the claim. The 30-day period will begin when the notice is given. In either event, or if Lender acquires the Property under Section 22 of this Security Instrument or otherwise, I give Lender my rights to any Insurance Proceeds in an amount not greater than the amounts unpaid under the Note and this Security Instrument. I also give Lender any other of my rights (other than the right to any refund of unearned premiums that I paid) under all insurance policies covering the Property, if the rights are applicable to the coverage of the Property. Lender may use the Insurance Proceeds either to repair or restore the Property or to pay amounts unpaid under the Note or this Security Instrument, whether or not then due.

6. Borrower's Obligations to Occupy The Property. I will occupy the Property and use the Property as my principal residence within 60 days after I sign this Security Instrument. I will continue to occupy the Property and to use the Property as my principal residence for at least one year. The one-year period will begin when I first occupy the Property. However, I will not have to occupy the Property and use the Property as my principal residence within the time frames set forth above if Lender agrees in writing that I do not have to do so. Lender may not

refuse to agree unless the refusal is reasonable. I also will not have to occupy the Property and use the Property as my principal residence within the time frames set forth above if extenuating circumstances exist which are beyond my control.

7. Borrower's Obligations to Maintain And Protect The Property And to Fulfill Any Lease Obligations.

(a) Maintenance and Protection of the Property. I will not destroy, damage or harm the Property, and I will not allow the Property to deteriorate. Whether or not I am residing in the Property, I will keep the Property in good repair so that it will not deteriorate or decrease in value due to its condition. Unless it is determined under Section 5 of this Security Instrument that repair is not economically feasible, I will promptly repair the Property if damaged to avoid further deterioration or damage. If insurance or Condemnation (as defined in the definition of Miscellaneous Proceeds) proceeds are paid because of loss or damage to, or Condemnation of, the Property, I will repair or restore the Property only if Lender has released those proceeds for such purposes. Lender may pay for the repairs and restoration out of proceeds in a single payment or in a series of progress payments as the work is completed. If the insurance or Condemnation proceeds are not sufficient to repair or restore the Property, I promise to pay for the completion of such repair or restoration.

(b) Lender's Inspection of Property. Lender, and others authorized by Lender, may enter on and inspect the Property. They will do so in a reasonable manner and at reasonable times. If it has a reasonable purpose, Lender may inspect the inside of the home or other improvements on the Property. Before or at the time an inspection is made, Lender will give me notice stating a reasonable purpose for such interior inspection.

8. Borrower's Loan Application. If, during the application process for the Loan, I, or any Person or entity acting at my direction or with my knowledge or consent, made false, misleading, or inaccurate statements to Lender about information important to Lender in determining my eligibility for the Loan (or did not provide Lender with such information), Lender will treat my actions as a default under this Security Instrument. False, misleading, or inaccurate statements about information important to Lender would include a misrepresentation of my intention to occupy the Property as a principal residence. This is just one example of a false, misleading, or inaccurate statement of important information.

9. Lender's Right to Protect Its Rights in The Property. If: (a) I do not keep my promises and agreements made in this Security Instrument; (b) someone, including me, begins a legal proceeding that may significantly affect Lender's interest in the Property or rights under this Security Instrument (such as a legal proceeding in bankruptcy, in probate, for Condemnation or Forfeiture (as defined in Section 11), proceedings which could give a Person rights which could equal or exceed Lender's interest in the Property or under this Security Instrument, proceedings for enforcement of a Lien which may become superior to this Security Instrument, or to enforce laws or regulations); or (c) I have abandoned the Property, then Lender may do and pay for whatever is reasonable or appropriate to protect Lender's interest in the Property and Lender's rights under this Security Instrument.

Lender's actions may include, but are not limited to: (a) protecting and/or assessing the value of the Property; (b) securing and/or repairing the Property; (c) paying sums to eliminate any Lien against the Property that may be equal or superior to this Security Instrument; (d) appearing in court; and (e) paying reasonable attorneys' fees to protect its interest in the Property and/or rights under this Security Instrument, including its secured position in a bankruptcy proceeding. Lender can also enter the Property to make repairs, change locks, replace or board up doors and windows, drain water from pipes, eliminate building or other code violations or dangerous conditions, have utilities turned on or off, and take any other action to secure the Property.

Although Lender may take action under this Section 9, Lender does not have to do so and is under no duty to do so. I agree that Lender will not be liable for not taking any or all actions under this Section 9.

I will pay to Lender any amounts, with interest, which Lender spends under this Section 9. I will pay those amounts to Lender when Lender sends me a notice requesting that I do so. I will pay interest on those amounts at the interest rate set forth in the Note. Interest on each amount will begin on the date that the amount is spent by Lender. This Security Instrument will protect Lender in case I do not keep this promise to pay those amounts with interest.

If I do not own, but am a tenant on the Property, I will fulfill all my obligations under my lease. I also agree that, if I acquire the full title (sometimes called "Fee Title") to the Property, my lease interest and the Fee Title will not merge unless Lender agrees to the merger in writing.

10. Mortgage Insurance. If Lender required Mortgage Insurance as a condition of making the Loan, I will pay the premiums for the Mortgage Insurance. If, for any reason, the Mortgage Insurance coverage ceases to be available from the mortgage insurer that previously provided such insurance and Lender required me to make separate payments toward the premiums for Mortgage Insurance, I will pay the premiums for substantially equivalent Mortgage Insurance coverage from an alternate mortgage insurer. However, the cost of this Mortgage Insurance coverage will be substantially equivalent to the cost to me of the previous Mortgage Insurance coverage, and the alternate mortgage insurer will be selected by Lender.

If substantially equivalent Mortgage Insurance coverage is not available, Lender will establish a non-refundable "Loss Reserve" as a substitute for the Mortgage Insurance coverage. I will continue to pay to Lender each month an amount equal to one-twelfth of the yearly Mortgage Insurance premium (as of the time the coverage lapsed or ceased to be in effect). Lender will retain these payments, and will use these payments to pay for losses that the Mortgage Insurance would have covered. The Loss Reserve is non-refundable even if the Loan is ultimately paid in full and Lender is not required to pay me any interest on the Loss Reserve. Lender can no longer require Loss Reserve payments if: (a) Mortgage Insurance coverage again becomes available through an insurer selected by Lender; (b) such Mortgage Insurance is obtained; (c) Lender requires separately designated payments toward the premiums for Mortgage Insurance; and (d) the Mortgage Insurance coverage is in the amount and for the period of time required by Lender.

If Lender required Mortgage Insurance as a condition of making the Loan and Borrower was required to make separate payments toward the premiums for Mortgage Insurance, I will pay the Mortgage Insurance premiums, or the Loss Reserve payments, until the requirement for Mortgage Insurance ends according to any written agreement between Lender and me providing for such termination or until termination of Mortgage Insurance is required by Applicable Law. Lender may require me to pay the premiums, or the Loss Reserve payments, in the manner described in Section 3 of this Security Instrument. Nothing in this Section 10 will affect my obligation to pay interest at the rate provided in the Note.

A Mortgage Insurance policy pays Lender (or any entity that purchases the Note) for certain losses it may incur if Borrower does not repay the Loan as agreed. Borrower is not a party to the Mortgage Insurance policy.

Mortgage insurers assess their total risk on all Mortgage Insurance from time to time. Mortgage insurers may enter into agreements with other parties to share or change their risk, or to reduce losses. These agreements are based on terms and conditions that are satisfactory to the mortgage insurer and the other party (or parties) to these agreements. These agreements may require the mortgage insurer to make payments using any source of funds that the mortgage insurer may have available (which may include Mortgage Insurance premiums).

As a result of these agreements, Lender, any owner of the Note, another insurer, any reinsurer, or any other entity, may receive (directly or indirectly) amounts that come from a portion of Borrower's payments for Mortgage Insurance, in exchange for sharing or changing the mortgage insurer's risk, or reducing losses. If these agreements provide that an affiliate of Lender takes a share of the insurer's risk in exchange for a share of the premiums paid to the insurer, the arrangement is often termed "captive reinsurance."

It also should be understood that: (a) any of these agreements will not affect the amounts that Borrower has agreed to pay for Mortgage Insurance, or any other terms of the Loan. These agreements will not increase the amount Borrower will owe for Mortgage Insurance, and they will not entitle Borrower to any refund; and (b) any of these agreements will not affect the rights Borrower has – if any – regarding the Mortgage Insurance under the Homeowners Protection Act of 1998 or any other law. These rights may include the right (a) to receive certain disclosures, (b) to request and obtain cancellation of the Mortgage Insurance, (c) to have the Mortgage Insurance terminated automatically, and/or (d) to receive a refund of any Mortgage Insurance premiums that were not earned at the time of such cancellation or termination.

11. Agreements About Miscellaneous Proceeds; Forfeiture. All Miscellaneous Proceeds are assigned to and will be paid to Lender.

If the Property is damaged, such Miscellaneous Proceeds will be applied to restoration or repair of the Property, if (a) the restoration or repair is economically feasible, and (b) Lender's security given in this Security Instrument is not lessened. During such repair and restoration period, Lender will have the right to hold such Miscellaneous Proceeds until Lender has had an opportunity to inspect the Property to verify that the work has been completed to Lender's satisfaction. However, the inspection will be undertaken promptly. Lender may pay for the repairs and restoration in a single disbursement or in a series of progress payments as the work is completed. Unless Lender and I agree otherwise in writing or unless Applicable Law requires interest to be paid on such Miscellaneous Proceeds, Lender will not be required to pay Borrower any interest or earnings on the Miscellaneous Proceeds. If the restoration or repair is not economically feasible or Lender's security given in this Security Instrument would be lessened, the Miscellaneous Proceeds will be applied to the Sums Secured, whether or not then due. The excess, if any, will be paid to me. Such Miscellaneous Proceeds will be applied in the order provided for in Section 2.

In the event of a total taking, destruction, or loss in value of the Property, the Miscellaneous Proceeds will be applied to the Sums Secured, whether or not then due. The excess, if any, will be paid to me.

In the event of a partial taking, destruction, or loss in value of the Property in which the fair market value of the Property immediately before the partial taking, destruction, or loss in value is equal to or greater than the amount of the Sums Secured immediately before the partial taking, destruction, or loss in value, the Sums Secured will be reduced by the amount of the Miscellaneous Proceeds multiplied by the following fraction: (a) the total amount of the Sums Secured immediately before the partial taking, destruction, or loss in value divided by (b) the fair market value of the Property immediately before the partial taking, destruction, or loss in value. Any balance shall be paid to me.

In the event of a partial taking, destruction, or loss in value of the Property in which the fair market value of the Property immediately before the partial taking, destruction, or loss in value is less than the amount of the Sums Secured immediately before the partial taking, destruction, or loss in value, the Miscellaneous Proceeds will be applied to the Sums Secured whether or not the sums are then due.

If I abandon the Property, or if, after Lender sends me notice that the Opposing Party (as defined in the next sentence) offered to make an award to settle a claim for damages, I fail to respond to Lender within 30 days after the date Lender gives notice, Lender is authorized to collect and apply the Miscellaneous Proceeds either to restoration or repair of the Property or to the Sums Secured, whether or not then due. "Opposing Party" means the third party that owes me Miscellaneous Proceeds or the party against whom I have a right of action in regard to Miscellaneous Proceeds.

I will be in default under this Security Instrument if any civil or criminal action or proceeding that Lender determines could result in a court ruling (a) that would require Forfeiture of the Property, or (b) that could damage Lender's interest in the Property or rights under this Security Instrument. "Forfeiture" is a court action to require the Property, or any part of the Property, to be given up. I may correct the default by obtaining a court ruling that dismisses the court action, if Lender determines that this court ruling prevents Forfeiture of the Property and also prevents any damage to Lender's interest in the Property or rights under this Security Instrument. If I correct the default, I will have the right to have enforcement of this Security Instrument discontinued, as provided in Section 19 of this Security Instrument, even if Lender has required Immediate Payment in Full (as defined in Section 22). The proceeds of any award or claim for damages that are attributable to the damage or reduction of Lender's interest in the Property are assigned, and will be paid, to Lender.

All Miscellaneous Proceeds that are not applied to restoration or repair of the Property will be applied in the order provided for in Section 2.

12. Continuation of Borrower's Obligations And of Lender's Rights.

(a) Borrower's Obligations. Lender may allow me, or a Person who takes over my rights and obligations, to delay or to change the amount of the Periodic Payments. Even if Lender does this, however, I will still be fully obligated under the Note and under this Security Instrument unless Lender agrees to release me, in writing, from my obligations.

Lender may allow those delays or changes for me or a Person who takes over my rights and obligations, even if Lender is requested not to do so. Even if Lender is requested to do so, Lender will not be required to (1) bring a lawsuit against me or such a Person for not fulfilling obligations under the Note or under this Security Instrument, or (2) refuse to extend time for payment or otherwise modify amortization of the Sums Secured.

(b) Lender's Rights. Even if Lender does not exercise or enforce any right of Lender under this Security Instrument or under Applicable Law, Lender will still have all of those rights and may exercise and enforce them in the future. Even if: (1) Lender obtains insurance, pays taxes, or pays other claims, charges or Liens against the Property; (2) Lender accepts payments from third Persons; or (3) Lender accepts payments in amounts less than the amount then due, Lender will have the right under Section 22 below to demand that I make Immediate Payment in Full of any amounts remaining due and payable to Lender under the Note and under this Security Instrument.

13. Obligations of Borrower And of Persons Taking Over Borrower's Rights or Obligations. If more than one Person signs this Security Instrument as Borrower, each of us is fully obligated to keep all of Borrower's promises and obligations contained in this Security Instrument. Lender may enforce Lender's rights under this Security Instrument against each of us individually or against all of us together. This means that any one of us may be required to pay all of the Sums Secured. However, if one of us does not sign the Note: (a) that Person is signing this Security Instrument only to give that Person's rights in the Property to Lender under the terms of this Security Instrument; (b) that Person is not personally obligated to pay the Sums Secured; and (c) that Person agrees that Lender may agree with the other Borrowers to delay

enforcing any of Lender's rights, to modify, or make any accommodations with regard to the terms of this Security Instrument or the Note without that Person's consent.

Subject to the provisions of Section 18 of this Security Instrument, any Person who takes over my rights or obligations under this Security Instrument in writing, and is approved by Lender in writing, will have all of my rights and will be obligated to keep all of my promises and agreements made in this Security Instrument. Borrower will not be released from Borrower's obligations and liabilities under this Security Instrument unless Lender agrees to such release in writing. Any Person who takes over Lender's rights or obligations under this Security Instrument will have all of Lender's rights and will be obligated to keep all of Lender's promises and agreements made in this Security Instrument except as provided under Section 20.

14. Loan Charges. Lender may charge me fees for services performed in connection with my default, for the purpose of protecting Lender's interest in the Property and rights under this Security Instrument, including, but not limited to, attorneys' fees, property inspection and valuation fees. With regard to other fees, the fact that this Security Instrument does not expressly indicate that Lender may charge a certain fee does not mean that Lender cannot charge that fee. Lender may not charge fees that are prohibited by this Security Instrument or by Applicable Law.

If the Loan is subject to Applicable Law which sets maximum loan charges, and that Applicable Law is finally interpreted so that the interest or other loan charges collected or to be collected in connection with the Loan exceed permitted limits: (a) any such loan charge will be reduced by the amount necessary to reduce the charge to the permitted limit; and (b) any sums already collected from me which exceeded permitted limits will be refunded to me. Lender may choose to make this refund by reducing the principal owed under the Note or by making a direct payment to Borrower. If a refund reduces principal, the reduction will be treated as a partial prepayment without any prepayment charge (even if a prepayment charge is provided for under the Note). If I accept such a refund that is paid directly to me, I will waive any right to bring a lawsuit against Lender because of the overcharge.

15. Notices Required under this Security Instrument. All notices given by me or Lender in connection with this Security Instrument will be in writing. Any notice to me in connection with this Security Instrument is considered given to me when mailed by first class mail or when actually delivered to my notice address if sent by other means. Notice to any one Borrower will be notice to all Borrowers unless Applicable Law expressly requires otherwise. The notice address is the address of the Property unless I give notice to Lender of a different address. I will promptly notify Lender of my change of address. If Lender specifies a procedure for reporting my change of address, then I will only report a change of address through that specified procedure. There may be only one designated notice address under this Security Instrument at any one time. Any notice to Lender will be given by delivering it or by mailing it by first class mail to Lender's address stated on the first page of this Security Instrument unless Lender has given me notice of another address. Any notice in connection with this Security Instrument is given to Lender when it is actually received by Lender. If any notice required by this Security Instrument is also required under Applicable Law, the Applicable Law requirement will satisfy the corresponding requirement under this Security Instrument.

16. Law That Governs this Security Instrument; Word Usage. This Security Instrument is governed by federal law and the law of New York State. All rights and obligations contained in this Security Instrument are subject to any requirements and limitations of Applicable Law. Applicable Law might allow the parties to agree by contract or it might be silent, but such silence does not mean that Lender and I cannot agree by contract. If any term of this Security Instrument or of the Note conflicts with Applicable Law, the conflict will not affect other provisions of this Security Instrument or the Note which can operate, or be given effect, without

the conflicting provision. This means that the Security Instrument or the Note will remain as if the conflicting provision did not exist.

As used in this Security Instrument: (a) words of the masculine gender mean and include corresponding words of the feminine and neuter genders; (b) words in the singular mean and include the plural, and words in the plural mean and include the singular; and (c) the word "may" gives sole discretion without any obligation to take any action.

17. Borrower's Copy. I will be given one copy of the Note and of this Security Instrument.

18. Agreements about Lender's Rights If the Property Is Sold or Transferred. Lender may require Immediate Payment in Full of all Sums Secured by this Security Instrument if all or any part of the Property, or if any right in the Property, is sold or transferred without Lender's prior written permission. If Borrower is not a natural Person and a beneficial interest in Borrower is sold or transferred without Lender's prior written permission, Lender also may require Immediate Payment in Full. However, this option shall not be exercised by Lender if such exercise is prohibited by Applicable Law.

If Lender requires Immediate Payment in Full under this Section 18, Lender will give me a notice which states this requirement. The notice will give me at least 30 days to make the required payment. The 30-day period will begin on the date the notice is given to me in the manner required by Section 15 of this Security Instrument. If I do not make the required payment during that period, Lender may act to enforce its rights under this Security Instrument without giving me any further notice or demand for payment.

19. Borrower's Right to Have Lender's Enforcement of this Security Instrument Discontinued. Even if Lender has required Immediate Payment in Full, I may have the right to have enforcement of this Security Instrument stopped. I will have this right at any time before the earliest of: (a) five days before sale of the Property under any power of sale granted by this Security Instrument; (b) another period as Applicable Law might specify for the termination of my right to have enforcement of the Loan stopped; or (c) a judgment has been entered enforcing this Security Instrument. In order to have this right, I will meet the following conditions:

- (a) I pay to Lender the full amount that then would be due under this Security Instrument and the Note as if Immediate Payment in Full had never been required;
- (b) I correct my failure to keep any of my other promises or agreements made in this Security Instrument;
- (c) I pay all of Lender's reasonable expenses in enforcing this Security Instrument including, for example, reasonable attorneys' fees, property inspection and valuation fees, and other fees incurred for the purpose of protecting Lender's interest in the Property and rights under this Security Instrument; and
- (d) I do whatever Lender reasonably requires to assure that Lender's interest in the Property and rights under this Security Instrument and my obligations under the Note and under this Security Instrument continue unchanged.

Lender may require that I pay the sums and expenses mentioned in (a) through (d) in one or more of the following forms, as selected by Lender: (a) cash; (b) money order; (c) certified check, bank check, treasurer's check or cashier's check drawn upon an institution whose deposits are insured by a federal agency, instrumentality or entity; or (d) Electronic Funds Transfer.

If I fulfill all of the conditions in this Section 19, then this Security Instrument will remain in full effect as if Immediate Payment in Full had never been required. However, I will not have the right to have Lender's enforcement of this Security Instrument discontinued if Lender has required Immediate Payment in Full under Section 18 of this Security Instrument.

20. Note Holder's Right to Sell the Note or an Interest in the Note; Borrower's Right to Notice of Change of Loan Servicer; Lender's and Borrower's Right to Notice of Grievance. The Note, or an interest in the Note, together with this Security Instrument, may be sold one or more times. I might not receive any prior notice of these sales.

The entity that collects the Periodic Payments and performs other mortgage loan servicing obligations under the Note, this Security Instrument, and Applicable Law is called the "Loan Servicer." There may be a change of the Loan Servicer as a result of the sale of the Note. There also may be one or more changes of the Loan Servicer unrelated to a sale of the Note. Applicable Law requires that I be given written notice of any change of the Loan Servicer. The notice will state the name and address of the new Loan Servicer, and also tell me the address to which I should make my payments. The notice also will contain any other information required by RESPA or Applicable Law. If the Note is sold and thereafter the Loan is serviced by a Loan Servicer other than the purchaser of the Note, the mortgage loan servicing obligations to me will remain with the Loan Servicer or be transferred to a successor Loan Servicer and are not assumed by the Note purchaser unless otherwise provided by the Note purchaser.

Neither I nor Lender may commence, join or be joined to any court action (as either an individual party or the member of a class) that arises from the other party's actions pursuant to this Security Instrument or that alleges that the other has not fulfilled any of its obligations under this Security Instrument, unless the other is notified (in the manner required under Section 15 of this Security Instrument) of the unfulfilled obligation and given a reasonable time period to take corrective action. If Applicable Law provides a time period which will elapse before certain action can be taken, that time period will be deemed to be reasonable for purposes of this paragraph. The notice of acceleration and opportunity to cure given to me under Section 22 and the notice of the demand for payment in full given to me under Section 22 will be deemed to satisfy the notice and opportunity to take corrective action provisions of this Section 20. All rights under this paragraph are subject to Applicable Law.

21. Continuation of Borrower's Obligations to Maintain and Protect the Property. The federal laws and the laws of New York State that relate to health, safety or environmental protection are called "Environmental Law." Environmental Law classifies certain substances as toxic or hazardous. There are other substances that are considered hazardous for purposes of this Section 21. These substances are gasoline, kerosene, other flammable or toxic petroleum products, toxic pesticides and herbicides, volatile solvents, materials containing asbestos or formaldehyde, and radioactive materials. The substances defined as toxic or hazardous by Environmental Law and the substances considered hazardous for purposes of this Section 21 are called "Hazardous Substances." "Environmental Cleanup" includes any response action, remedial action, or removal action, as defined in Environmental Law. An "Environmental Condition" means a condition that can cause, contribute to, or otherwise trigger an Environmental Cleanup.

I will not do anything affecting the Property that violates Environmental Law, and I will not allow anyone else to do so. I will not cause or permit Hazardous Substances to be present on the Property. I will not use or store Hazardous Substances on the Property. I also will not dispose of Hazardous Substances on the Property, or release any Hazardous Substance on the Property, and I will not allow anyone else to do so. I also will not do, nor allow anyone else to do, anything affecting the Property that: (a) is in violation of any Environmental Law; (b) creates an Environmental Condition; or (c) which, due to the presence, use, or release of a Hazardous Substance, creates a condition that adversely affects the value of the Property. The promises in this paragraph do not apply to the presence, use, or storage on the Property of small quantities of Hazardous Substances that are generally recognized as appropriate for normal residential use and

maintenance of the Property (including, but not limited to, Hazardous Substances in consumer products). I may use or store these small quantities on the Property. In addition, unless Environmental Law requires removal or other action, the buildings, the improvements and the fixtures on the Property are permitted to contain asbestos and asbestos-containing materials if the asbestos and asbestos-containing materials are undisturbed and “non-friable” (that is, not easily crumbled by hand pressure).

I will promptly give Lender written notice of: (a) any investigation, claim, demand, lawsuit or other action by any governmental or regulatory agency or private party involving the Property and any Hazardous Substance or Environmental Law of which I have actual knowledge; (b) any Environmental Condition, including but not limited to, any spilling, leaking, discharge, release or threat of release of any Hazardous Substance; and (c) any condition caused by the presence, use or release of a Hazardous Substance which adversely affects the value of the Property. If I learn, or any governmental or regulatory authority, or any private party, notifies me that any removal or other remediation of any Hazardous Substance affecting the Property is necessary, I will promptly take all necessary remedial actions in accordance with Environmental Law.

Nothing in this Security Instrument creates an obligation on Lender for an Environmental Cleanup.

NON-UNIFORM COVENANTS

I also promise and agree with Lender as follows:

22. Lender’s Rights If Borrower Fails to Keep Promises and Agreements. Except as provided in Section 18 of this Security Instrument, if all of the conditions stated in subsections (a), (b) and (c) of this Section 22 are met, Lender may require that I pay immediately the entire amount then remaining unpaid under the Note and under this Security Instrument. Lender may do this without making any further demand for payment. This requirement is called “Immediate Payment in Full.”

If Lender requires Immediate Payment in Full, Lender may bring a lawsuit to take away all of my remaining rights in the Property and have the Property sold. At this sale Lender or another Person may acquire the Property. This is known as “Foreclosure and Sale.” In any lawsuit for Foreclosure and Sale, Lender will have the right to collect all costs and disbursements and additional allowances allowed by Applicable Law and will have the right to add all reasonable attorneys’ fees to the amount I owe Lender, which fees shall become part of the Sums Secured.

Lender may require Immediate Payment in Full under this Section 22 only if all of the following conditions are met:

- (a) I fail to keep any promise or agreement made in this Security Instrument or the Note, including, but not limited to, the promises to pay the Sums Secured when due, or if another default occurs under this Security Instrument;
- (b) Lender sends to me, in the manner described in Section 15 of this Security Instrument, a notice that states:
 - (1) The promise or agreement that I failed to keep or the default that has occurred;
 - (2) The action that I must take to correct that default;
 - (3) A date by which I must correct the default. That date will be at least 30 days from the date on which the notice is given;

(4) That if I do not correct the default by the date stated in the notice, Lender may require Immediate Payment in Full, and Lender or another Person may acquire the Property by means of Foreclosure and Sale;

(5) That if I meet the conditions stated in Section 19 of this Security Instrument, I will have the right to have Lender's enforcement of this Security Instrument stopped and to have the Note and this Security Instrument remain fully effective as if Immediate Payment in Full had never been required; and

(6) That I have the right in any lawsuit for Foreclosure and Sale to argue that I did keep my promises and agreements under the Note and under this Security Instrument, and to present any other defenses that I may have; and

(c) I do not correct the default stated in the notice from Lender by the date stated in that notice.

23. Lender's Obligation to Discharge this Security Instrument. When Lender has been paid all amounts due under the Note and under this Security Instrument, Lender will discharge this Security Instrument by delivering a certificate stating that this Security Instrument has been satisfied. I will pay all costs of recording the discharge in the proper official records. I agree to pay a fee for the discharge of this Security Instrument, if Lender so requires. Lender may require that I pay such a fee, but only if the fee is paid to a third party for services rendered and the charging of the fee is permitted by Applicable Law.

24. Agreements about New York Lien Law. I will receive all amounts lent to me by Lender subject to the trust fund provisions of Section 13 of the New York Lien Law. This means that I will: (a) hold all amounts which I receive and which I have a right to receive from Lender under the Note as a trust fund; and (b) use those amounts to pay for "Cost of Improvement" (as defined in Section 13 of the New York Lien Law) before I use them for any other purpose. The fact that I am holding those amounts as a trust fund means that for any building or other improvement located on the Property I have a special responsibility under the law to use the amount in the manner described in this Section 24.

25. Borrower's Statement Regarding the Property [check box as applicable].

☐ This Security Instrument covers real property improved, or to be improved, by a one or two family dwelling only.

☐ This Security Instrument covers real property principally improved, or to be improved, by one or more structures containing, in the aggregate, not more than six residential dwelling units with each dwelling unit having its own separate cooking facilities.

☐ This Security Instrument does not cover real property improved as described above.

BY SIGNING BELOW, I accept and agree to the promises and agreements contained in pages 1 through 19 of this Security Instrument and in any Rider signed by me and recorded with it.

Witnesses:

- Borrower (Seal)

_____ [Space Below This Line For Acknowledgment] _____

Application for Release of Security

Fannie Mae Loan Number:

Servicer Loan Identification Number:

Insurer/Guarantor Case Number:

Borrower’s Name and Mailing Address	Name(s) and Mailing Address(es) of Any Other Obligor, Co-maker, Endorser or Guarantor
Property Address	Legal Description of Property (from Security Instrument)

Type of Release Requested

- ☐ Grant of Easement
- ☐ Release of Easement
- ☐ Subordination of Mortgage to Easement
- ☐ Partition of Real Property
- ☐ Substitution of Security
- ☐ Partial Release of Real Property
- ☐ Condemnation
- ☐ Exercise of Eminent Domain
- ☐ Release of Personal Property
- ☐ Release of Oil, Gas, or Mineral Rights
- ☐ Waiver of Rights under Mortgage

Purpose of Proposed Release (discuss future use of any new easement or the property that is to be released, divided, or substituted)

Legal Description of Property to be Released, Divided, or Substituted

Future Use of Remainder of Security Property (discuss how it is affected by the transaction)

Restrictions on Security Property as Result of New Easement (if applicable)

Cash Consideration to be Received through Transaction:	\$
Less Deductions to Cash Proceeds (show purpose and amount)	
(a) Borrower’s Costs to Obtain Release	-\$
(b) Property Improvement/Restoration Costs	-\$
(c) Other	-\$
Amount Available for Application to Account	\$

Describe any other consideration received by the borrower(s):

Agreement of Borrower(s)

By applying for the release of security described above, the undersigned borrower(s) hereby agree that Fannie Mae may, at its option, apply any of the proceeds from this transaction to taxes, assessments, ground rents, insurance, costs of improvements or restoration, or to such other items as it may deem proper or to the borrower’s outstanding mortgage balance, Borrower(s) further agree that no rights or remedies of Fannie Mae under the mortgage are or shall be waived, limited, or impaired in any way by any action taken on this application. It is understood and agreed that all costs or expenses incurred in connection with the examination and perfection of title, credit investigation and reports, property inspections or appraisal reports, preparation and recordation of instruments, or other items incident to the consideration of this application or consummation of the transaction will be paid by the borrower(s). It is further agreed that the borrower(s) will execute all instruments or papers necessary or required by Fannie Mae in connection with this transaction and will obtain the consent or waiver of any obligor, co-makers, endorser, guarantors, etc. to this application.

In the event of the withdrawal or rejection of this application or failure or refusal on part of the borrower(s) to execute the necessary instruments or papers on request, nothing herein contained or action taken in conformity herewith shall be deemed to constitute a forbearance, extension, or prejudice or to impair or affect Fannie Mae’s rights or remedies under the mortgage.

All statements made in connection herewith and contained herein are made for the purpose of inducing Fannie Mae to grant the request set forth herein and are true and complete to the best of the knowledge and belief of the undersigned borrower(s).

Dated at: _____	_____ (Borrower’s Signature)
This _____ day of _____, 20 _____	_____ (Borrower’s Signature)

Agreement of Any Other Obligor, Co-Maker, Endorser, or Guarantor

The undersigned, being obligated for the payment of the mortgage indebtedness secured by the above described property, hereby consents to the execution of this application between the above-described borrower(s) and Fannie Mae and further consents to any action taken by Fannie Mae pursuant thereto.

_____ (Signature)	_____ (Date)	_____ (Signature)	_____ (Date)
_____ (Signature)	_____ (Date)	_____ (Signature)	_____ (Date)

SERVICER’S ANALYSIS

Status of First Mortgage Unpaid Principal Balance: Last Paid Installment Date: Delinquent Payments: Number:_____ Amount:_____ Outstanding Advances: Escrow Account Balance:	Status of Second Mortgage Unpaid Principal Balance: Last Paid Installment Date: Delinquent Payments: Number:_____ Amount:_____ Outstanding Advances: Escrow Account Balance (if applicable):
Occupancy Status of Property:	Original LTV/CLTV Ratio:
Basis for Property Valuation <input type="checkbox"/> New Appraisal (required only if value of released property exceeds \$10,000) <input type="checkbox"/> Broker’s Price Opinion <input type="checkbox"/> Trade-in Allowance <input type="checkbox"/> 10% Annual Depreciation <input type="checkbox"/> Servicer’s Estimate	Source of Property Valuation <input type="checkbox"/> Appraiser <input type="checkbox"/> Property Inspector <input type="checkbox"/> Real Estate Broker <input type="checkbox"/> Servicer
Fair Market Value of Real/Personal Property Released	Fair Market Value of Security After Release*

*Provide explanation if the value of the remaining security property is enhanced or diminished as the result of the release:

Attachments (check all that apply)

☐ Plat, sketch or survey (original and revised)
☐ Current appraisal
☐ Broker’s price opinion
☐ Blueprints, drawings and estimates
☐ Copy of oil/gas/mineral rights lease

☐ Copy of security instrument and any applicable assignment
☐ Any documents required to effect recordation of release
☐ Proposed instrument
☐ 12-month payment history for mortgage(s)
☐ Other: _____

Recommendation for Disposition of Amount Available for Application to Account:

☐ Apply \$ _____
☐ Apply \$ _____
☐ Allow \$ _____
☐
☐
☐

to unpaid principal balance of mortgage.
toward payment of past-due mortgage payments.
to be retained by borrower(s).

BY: _____ Date: _____
(Servicer Representative’s Signature and Title)

Servicer’s Name and Fannie Mae Identification Number	Servicer’s Address
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APPROVAL OF MORTGAGE INSURER OR GUARANTOR (attach copy of any separate approval letter)

The within application, together with the recommendation and supporting file, if any, have been carefully considered. The granting of this request is approved.

BY: _____ Date: _____

☐ **FANNIE MAE DECISION** or ☐ **SERVICER DECISION** (The decision maker should identify itself by checking the applicable box, and then indicate the applicable decision below):

☐ Approved, with proceeds distributed as recommended
☐ Approved, with proceeds distributed as follows:

☐ Denied
☐ No decision reached; resubmit additional information:

Comments:

BY: _____ or BY: _____
(Fannie Mae Representative) (Servicer Representative)

Date: _____ Date: _____

After Recording Return To:

_____ [Space Above This Line For Recording Data] _____

MORTGAGE

Security Agreement, Assignment of Rents and Fixture Filing

DEFINITIONS

Words used in multiple sections of this document are defined below and other words are defined in certain Sections of this document. Certain rules regarding the usage of words used in this document are also provided in Section 13.

(A) **“Security Instrument”** means this document, which is dated _____, _____, together with all Riders to this document.

(B) **“Borrower”** is _____. Borrower is the trustor under this Security Instrument.

(C) **“Lender”** is _____. Lender is a _____ organized and existing under the laws of _____. Lender’s address is _____. Lender is the beneficiary under this Security Instrument.

(D) **“Trustee”** is _____.

(E) **“Note”** means the promissory note signed by Borrower and dated _____, _____. The Note states that Borrower owes Lender _____ Dollars (U.S. \$_____) plus interest. Borrower has promised to pay this debt in regular Periodic Payments and to pay the debt in full not later than _____.

(A) **“Property”** means the property that is described below under the heading “Transfer of Rights in the Property.”

(B) **“Loan”** means the debt evidenced by the Note, plus interest, any prepayment charges and late charges due under the Note, and all sums due under this Security Instrument, plus interest.

(G) **“Riders”** mean all Riders to this Security Instrument that are executed by Borrower. The following Riders are to be executed by Borrower [check box as applicable]:

- | | |
|--|--|
| <input type="checkbox"/> Irrigation Equipment Rider | <input type="checkbox"/> Water Rights Rider |
| <input type="checkbox"/> Financial Information and Covenants Rider | <input type="checkbox"/> Permitted Prior Encumbrance Rider |
| <input type="checkbox"/> Mortgage Insurance Rider | <input type="checkbox"/> Adjustable Rate Rider |
| <input type="checkbox"/> Other(s): «1006» | |

(H) **“Applicable Law”** means all controlling applicable federal, state and local statutes, regulations, ordinances and administrative rules and orders (that have the effect of law) as well as all applicable final, non-appealable judicial opinions.

(I) **“Electronic Funds Transfer”** means any transfer of funds, other than a transaction originated by check, draft, or similar paper instrument, which is initiated through an electronic terminal, telephonic instrument, computer, or magnetic tape so as to order, instruct, or authorize a financial institution to debit or credit an account. Such term includes, but is not limited to, point-of-sale transfers, automated teller machine transactions, transfers initiated by telephone, wire transfers, and automated clearinghouse transfers.

(J) **“Miscellaneous Proceeds”** means any compensation, settlement, award of damages, or proceeds paid by any third party (other than insurance proceeds paid under the coverages described in Section 4) for: (i) damage to, or destruction of, the Property; (ii) condemnation or other taking of all or any part of the Property; (iii) conveyance in lieu of condemnation; or (iv) misrepresentations of, or omissions as to, the value and/or condition of the Property.

(K) **“Periodic Payment”** means the regularly scheduled amount due for principal and interest under the Note.

(L) **“Successor in Interest of Borrower”** means any party that has taken title to the Property, whether or not that party has assumed Borrower’s obligations under the Note and/or this Security Instrument.

TRANSFER OF RIGHTS IN THE PROPERTY

This Security Instrument secures to Lender: (i) the repayment of the Loan, and all renewals, extensions and modifications of the Note; and (ii) the performance of Borrower’s covenants and agreements under this Security Instrument and the Note. For this purpose, Borrower irrevocably grants and conveys to Lender, with power of sale, the following described property located in the _____ of _____: [Type of Recording Jurisdiction]
[Name of Recording Jurisdiction]

which currently has the address of _____
_____, Nebraska _____ [Street]
[City] [Zip Code] (“Property Address”):

subject only to those matters set forth in the Permitted Prior Encumbrance Rider, if said rider is attached (hereafter “Permitted Prior Encumbrances”);

TOGETHER WITH all buildings, improvements, equipment, fixtures and permanent plantings located therein or thereon or appurtenant thereto, and all additions, replacements, and improvements hereafter made thereto or placed therein or thereon; all rights-of-way, easements, rents, issues, profits, income, proceeds and general intangibles therefrom, tenements, hereditaments, remainders, reversions, privileges and appurtenances thereunto belonging, however evidenced which are used or enjoyed in connection with the real property now or hereafter owned or belonging to the same or which hereafter may be acquired and so used or enjoyed;

TOGETHER WITH all water and water rights now owned or hereafter acquired by Borrower and howsoever evidenced, including but not limited to any water rights specifically described in the Water Rights Rider if said rider is attached hereto, whether such water and water rights are riparian, appropriative or otherwise and whether or not appurtenant to the real property, along with all ditch and ditch rights and any shares of stock, licenses, permits and contracts evidencing such water or ditch rights, and all wells, reservoirs, dams, embankments or fixtures relating thereto;

TOGETHER WITH all personal property, including all windmills, pumps, irrigation equipment, motors, engines, and devices of every kind now or hereafter used for or in connection with the irrigation of the real property, or for stock watering or domestic purposes thereon, and all grain bins and storage bins, which are owned by Borrower and which are located on the real property in «89» County, «90», described above together with all additional accessions, replacements, improvements, repairs and substitutions to said property and the proceeds thereof and all other fixtures now or hereafter located upon the real property, all of which are declared to be appurtenant to said real property, or incident to the ownership thereof, or used in connection therewith;

TOGETHER WITH all judgments, awards of damages, settlements and payments or security (i) hereafter made as a result of or in lieu of any taking of all or any part of the real property under the power of eminent domain or for any damage to the real property and/or the improvements located thereon, or any part thereof, and (ii) hereafter made for any damage to the real property and/or the improvements located thereon, or any part thereof resulting from exercise of or attempted exercise of mining rights or claims, however reserved or asserted, and resulting from the disturbance of any of the surface of the real property. Borrower does hereby covenant and agree that Borrower will not give such consent as may be required of the owner for mining or other surface disturbance by the terms of any patent, deed, statute, law or otherwise, without the prior written consent of Lender;

TOGETHER WITH all proceeds of and any unearned premiums on any insurance policies covering the real property and/or the improvements located thereon, including, without limitation, the right to receive and apply the proceeds of any insurance judgments, or settlements made in lieu thereof, for damage to the real property and/or the improvements located thereon or the indebtedness secured thereby;

TOGETHER WITH all contract rights, chattel paper, documents, accounts and general intangibles, rights to performance, entitlement to payment in cash or in kind, or any other benefits under any current or future governmental program which pertain to the real property, whether now or hereafter existing or acquired;

TOGETHER WITH all cash and noncash proceeds of the conversion, voluntary or involuntary, of any of the foregoing;

TOGETHER WITH any and all of Borrower's right, title, and/or interest in any and all system memberships and/or ownership certificates in any non-municipal water sewer systems now or in the future serving said property.

All replacements and additions shall also be covered by this Security Instrument.

All of the foregoing is referred to in this Security Instrument as the "Property."

BORROWER COVENANTS that Borrower is lawfully seised of the estate hereby conveyed and has the right to grant and convey the Property and that the Property is unencumbered, except for encumbrances of record and specifically those permitted prior encumbrances, if any, set forth in the Permitted Prior Encumbrances Rider if said rider is attached to this Security Instrument. Borrower warrants and will defend generally the title to the Property against all claims and demands, subject to any encumbrances of record.

THIS SECURITY INSTRUMENT combines uniform covenants for national use and non-uniform covenants with limited variations by jurisdiction to constitute a uniform security instrument covering real property, fixtures, and certain personal property.

UNIFORM COVENANTS. Borrower and Lender covenant and agree as follows:

1. Payment of Principal, Interest, Prepayment Charges, Yield Maintenance Premiums and Late Charges. Borrower shall pay when due the principal of, and interest on, the debt evidenced by the Note and any yield maintenance premiums, any prepayment charges and late charges due under the Note. Payments due under the Note and this Security Instrument shall be made in U.S. currency. However, if any check or other instrument received by Lender as payment under the Note or this Security Instrument is returned to Lender unpaid, Lender may require that any or all subsequent payments due under the Note and this Security Instrument be made in one or more of the following forms, as selected by Lender: (a) cash; (b) money order; (c) certified check, bank check, treasurer's check or cashier's check, provided any such check is drawn upon an institution whose deposits are insured by a federal agency, instrumentality, or entity; or (d) Electronic Funds Transfer.

Payments are deemed received by Lender when received at the location designated in the Note or at such other location as may be designated by Lender in accordance with the notice provisions in Section 12. Lender may return any payment or partial payment if the payment or partial payment is insufficient to bring the Loan current. Lender may accept any payment or partial payment insufficient to bring the Loan current, without waiver of any rights hereunder or prejudice to its rights to refuse such payment or partial payment in the future, but Lender is not obligated to apply such payments at the time such payments are accepted Lender may hold such unapplied funds until Borrower makes payment to bring the Loan current. If Borrower does not do so within a reasonable period of time, Lender shall either apply such

PENNSYLVANIA—Farmer Mac UNIFORM INSTRUMENT **Form 5000.39 01/2010**

funds or return them to Borrower. If not applied earlier, such funds will be applied to the outstanding principal balance under the Note immediately prior to foreclosure. No offset or claim which Borrower might have now or in the future against Lender shall relieve Borrower from making payments due under the Note and this Security Instrument or performing the covenants and agreements secured by this Security Instrument.

2. Application of Payments or Proceeds. Unless required by Applicable Law, payments will be applied first to accrued unpaid interest, then to principal, and any remaining amount to any unpaid collection costs and late charges. Such payments shall be applied to each Periodic Payment in the order in which it became due.

If Lender receives a payment from Borrower for a delinquent Periodic Payment which includes a sufficient amount to pay any late charge due, the payment may be applied to the delinquent payment and the late charge. If more than one Periodic Payment is outstanding, Lender may apply any payment received from Borrower to the repayment of the Periodic Payments if, and to the extent that, each payment can be paid in full. To the extent that any excess exists after the payment is applied to the full payment of one or more Periodic Payments, such excess may be applied to any late charges due. Voluntary prepayments shall be applied first to any prepayment charges and then as described in the Note.

Any application of payments, insurance proceeds, or Miscellaneous Proceeds to principal due under the Note shall not extend or postpone the due date, or change the amount, of the Periodic Payments.

3. Charges; Liens. Borrower shall pay all taxes, assessments, charges, fines, and impositions attributable to the Property which can attain priority over this Security Instrument, leasehold payments or ground rents on the Property, if any.

Borrower shall promptly discharge any lien which has priority over this Security Instrument unless Borrower: (a) agrees in writing to the payment of the obligation secured by the lien in a manner acceptable to Lender, but only so long as Borrower is performing such agreement; (b) contests the lien in good faith by, or defends against enforcement of the lien in, legal proceedings which in Lender's opinion operate to prevent the enforcement of the lien while those proceedings are pending, but only until such proceedings are concluded; or (c) secures from the holder of the lien an agreement satisfactory to Lender subordinating the lien to this Security Instrument. If Lender determines that any part of the Property is subject to a lien which can attain priority over this Security Instrument, Lender may give Borrower a notice identifying the lien. Within 10 days of the date on which that notice is given, Borrower shall satisfy the lien or take one or more of the actions set forth above in this Section 3.

Lender may require Borrower to pay a one-time charge for a real estate tax verification and/or reporting service used by Lender in connection with this Loan.

4. Property Insurance. Borrower shall keep the improvements now existing or hereafter erected on the Property insured against loss by fire, hazards included within the term "extended coverage," and any other hazards including, but not limited to, earthquakes and floods, for which Lender requires insurance. This insurance shall be maintained in the amounts (including deductible levels) and for the periods that Lender requires. What Lender requires pursuant to the preceding sentences can change during the term of the Loan. The insurance carrier providing the insurance shall be chosen by Borrower subject to Lender's right to disapprove Borrower's choice, which right shall not be exercised unreasonably. Lender may require Borrower to pay, in connection with this Loan, either: (a) a one-time charge for flood zone determination, certification and tracking services; or (b) a one-time charge for flood zone determination and certification services and subsequent charges each time remappings or similar changes occur which reasonably might affect such determination or certification. Borrower shall also be responsible for the payment of any fees imposed by the Federal Emergency Management Agency in connection with the review of any flood zone determination resulting from an objection by Borrower.

If Borrower fails to maintain any of the coverages described above, Lender may obtain insurance coverage, at Lender's option and Borrower's expense. Lender is under no obligation to purchase any particular type or amount of coverage. Therefore, such coverage shall cover Lender, but might or might not protect Borrower, Borrower's equity in the Property, or the contents of the Property, against any risk, hazard or liability and might provide greater or lesser coverage than was previously in effect. Borrower acknowledges that the cost of the insurance coverage so obtained might significantly exceed the cost of insurance that Borrower could have obtained. Any amounts disbursed by Lender under this Section 4 shall become additional debt of Borrower secured by this Security Instrument. These amounts shall bear interest at the Note rate from the date of disbursement and shall be payable, with such interest, upon notice from Lender to Borrower requesting payment.

All insurance policies required by Lender and renewals of such policies shall be subject to Lender's right to disapprove such policies, shall include a standard mortgage clause, and shall name Lender as mortgagee and/or as an additional loss payee. Lender shall have the right to hold the policies and renewal certificates. If Lender requires, Borrower shall promptly give to Lender all receipts of paid premiums and renewal notices. If Borrower obtains any form

of insurance coverage, not otherwise required by Lender, for damage to, or destruction of, the Property, such policy shall include a standard mortgage clause and shall name Lender as mortgagee and/or as an additional loss payee.

In the event of loss, Borrower shall give prompt notice to the insurance carrier and Lender. Lender may make proof of loss if not made promptly by Borrower. Unless Lender and Borrower otherwise agree in writing, any insurance proceeds, whether or not the underlying insurance was required by Lender, shall be applied to restoration or repair of the Property, if the restoration or repair is economically feasible and Lender's security is not lessened. During such repair and restoration period, Lender shall have the right to hold such insurance proceeds until Lender has had an opportunity to inspect such Property to ensure the work has been completed to Lender's satisfaction, provided that such inspection shall be undertaken promptly. Lender may disburse proceeds for the repairs and restoration in a single payment or in a series of progress payments as the work is completed. Unless an agreement is made in writing or Applicable Law requires interest to be paid on such insurance proceeds, Lender shall not be required to pay Borrower any interest or earnings on such proceeds. Fees for public adjusters, or other third parties, retained by Borrower shall not be paid out of the insurance proceeds and shall be the sole obligation of Borrower. If the restoration or repair is not economically feasible or Lender's security would be lessened, the insurance proceeds shall be applied to the sums secured by this Security Instrument, whether or not then due, with the excess, if any, paid to Borrower. Such insurance proceeds shall be applied in the order provided for in Section 2.

If Borrower abandons the Property, Lender may file, negotiate and settle any available insurance claim and related matters. If Borrower does not respond within 30 days to a notice from Lender that the insurance carrier has offered to settle a claim, then Lender may negotiate and settle the claim. The 30-day period will begin when the notice is given. In either event, or if Lender acquires the Property under Section 25 or otherwise, Borrower hereby assigns to Lender (a) Borrower's rights to any insurance proceeds in an amount not to exceed the amounts unpaid under the Note or this Security Instrument, and (b) any other of Borrower's rights (other than the right to any refund of unearned premiums paid by Borrower) under all insurance policies covering the Property, insofar as such rights are applicable to the coverage of the Property. Lender may use the insurance proceeds either to repair or restore the Property or to pay amounts unpaid under the Note or this Security Instrument, whether or not then due.

5. Preservation, Maintenance and Protection of the Property; Inspections. Borrower shall not destroy, damage or impair the Property, allow the Property to deteriorate or commit waste on the Property. Borrower shall maintain the Property in order to prevent the Property from deteriorating or decreasing in value due to its condition. Unless it is determined pursuant to Section 4 that repair or restoration is not economically feasible, Borrower shall promptly repair the Property if damaged to avoid further deterioration or damage. If insurance or condemnation proceeds are paid in connection with damage to, or the taking of, the Property, Borrower shall be responsible for repairing or restoring the Property only if Lender has released proceeds for such purposes. Lender may disburse proceeds for the repairs and restoration in a single payment or in a series of progress payments as the work is completed. If the insurance or condemnation proceeds are not sufficient to repair or restore the Property, Borrower is not relieved of Borrower's obligation for the completion of such repair or restoration.

Borrower will operate the Property in a good and workmanlike manner and in accordance with all Applicable Law and will pay all fees and charges of any kind in connection therewith. Borrower will use good farming and animal husbandry practices.

Lender or its agent may make reasonable entries upon and inspections of the Property. If it has reasonable cause, Lender may inspect the interior of the improvements on the Property. Lender shall give Borrower notice at the time of or prior to such an interior inspection specifying such reasonable cause.

6. Borrower's Loan Application. Borrower shall be in default if, during the Loan application process, Borrower or any persons or entities acting at the direction of Borrower or with Borrower's knowledge or consent gave materially false, misleading, or inaccurate information or statements to Lender (or failed to provide Lender with material information) in connection with the Loan.

7. Protection of Lender's Interest in the Property and Rights Under this Security Instrument. If (a) Borrower fails to perform the covenants and agreements contained in this Security Instrument, (b) there is a legal proceeding that might significantly affect Lender's interest in the Property and/or rights under this Security Instrument (such as a proceeding in bankruptcy, probate, for condemnation or forfeiture, for enforcement of a lien which may attain priority over this Security Instrument or to enforce laws or regulations), or (c) Borrower has abandoned the Property, then Lender may do and pay for whatever is reasonable or appropriate to protect Lender's interest in the Property and rights under this Security Instrument, including protecting and/or assessing the value of the Property, and securing and/or repairing the Property. Lender's actions can include, but are not limited to: (a) paying any sums secured by a lien which has priority over this Security Instrument; (b) appearing in court; (c) paying reasonable attorneys' fees to protect its interest in the Property and/or rights under this Security Instrument, including its secured position in a bankruptcy

proceeding, (d) perform any farming operations related to the planting, growing, maintenance, and harvesting of crops located on the Property, and (e) perform any ranching operations related to any animals located on the Property. Securing the Property includes, but is not limited to, entering the Property to make repairs, change locks, replace or board up doors and windows, drain water from pipes, eliminate building or other code violations or dangerous conditions, and have utilities turned on or off. Although Lender may take action under this Section 7, Lender does not have to do so and is not under any duty or obligation to do so. It is agreed that Lender incurs no liability for not taking any or all actions authorized under this Section 7. Lender may perform these or any other actions it deems necessary in Lender's sole discretion to preserve the value of the Property, and/or assign to others the right to do same on behalf of Lender. Lender may make advances under this security instrument or other instrument providing security for the Note, to protect the Lender's interest in this security instrument or other instrument providing security for the Note from loss of value or damage. Any money so advanced (including reasonable costs of recovery and attorneys' fees) plus interest at the default rate indicated in the Note shall become an obligation due and owing under the terms of the Note immediately upon the date advanced by Lender and is an obligation of the Borrower secured by the security instrument or other instrument providing security for the Note.

Any amounts disbursed by Lender under this Section 7 shall become additional debt of Borrower secured by this Security Instrument. These amounts shall bear interest at the Note rate from the date of disbursement and shall be payable, with such interest, upon notice from Lender to Borrower requesting payment.

If this Security Instrument is on a leasehold, Borrower shall comply with all the provisions of the lease. Borrower shall not surrender the leasehold estate and interests herein conveyed or terminate or cancel the ground lease. Borrower shall not, without the express written consent of Lender, alter or amend the ground lease. If Borrower acquires fee title to the Property, the leasehold and the fee title shall not merge unless Lender agrees to the merger in writing.

8. Assignment of Miscellaneous Proceeds; Forfeiture. All Miscellaneous Proceeds are hereby assigned to and shall be paid to Lender.

If the Property is damaged, such Miscellaneous Proceeds shall be applied to restoration or repair of the Property, if the restoration or repair is economically feasible and Lender's security is not lessened. During such repair and restoration period, Lender shall have the right to hold such Miscellaneous Proceeds until Lender has had an opportunity to inspect such Property to ensure the work has been completed to Lender's satisfaction, provided that such inspection shall be undertaken promptly. Lender may pay for the repairs and restoration in a single disbursement or in a series of progress payments as the work is completed. Unless an agreement is made in writing or Applicable Law requires interest to be paid on such Miscellaneous Proceeds, Lender shall not be required to pay Borrower any interest or earnings on such Miscellaneous Proceeds. If the restoration or repair is not economically feasible or Lender's security would be lessened, the Miscellaneous Proceeds shall be applied to the sums secured by this Security Instrument, whether or not then due, with the excess, if any, paid to Borrower. Such Miscellaneous Proceeds shall be applied in the order provided for in Section 2.

In the event of a total taking, destruction, or loss in value of the Property, the Miscellaneous Proceeds shall be applied to the sums secured by this Security Instrument, whether or not then due, with the excess, if any, paid to Borrower.

In the event of a partial taking, destruction, or loss in value of the Property in which the fair market value of the Property immediately before the partial taking, destruction, or loss in value is equal to or greater than the amount of the sums secured by this Security Instrument immediately before the partial taking, destruction, or loss in value, unless Borrower and Lender otherwise agree in writing, the sums secured by this Security Instrument shall be reduced by the amount of the Miscellaneous Proceeds multiplied by the following fraction: (a) the total amount of the sums secured immediately before the partial taking, destruction, or loss in value divided by (b) the fair market value of the Property immediately before the partial taking, destruction, or loss in value. Any balance shall be paid to Borrower.

In the event of a partial taking, destruction, or loss in value of the Property in which the fair market value of the Property immediately before the partial taking, destruction, or loss in value is less than the amount of the sums secured immediately before the partial taking, destruction, or loss in value, unless Borrower and Lender otherwise agree in writing, the Miscellaneous Proceeds shall be applied to the sums secured by this Security Instrument whether or not the sums are then due.

If the Property is abandoned by Borrower, or if, after notice by Lender to Borrower that the Opposing Party (as defined in the next sentence) offers to make an award to settle a claim for damages, Borrower fails to respond to Lender within 30 days after the date the notice is given, Lender is authorized to collect and apply the Miscellaneous Proceeds either to restoration or repair of the Property or to the sums secured by this Security Instrument, whether or not then due. "Opposing Party" means the third party that owes Borrower Miscellaneous Proceeds or the party against whom Borrower has a right of action in regard to Miscellaneous Proceeds.

Borrower shall be in default if any action or proceeding, whether civil or criminal, is begun that, in Lender's judgment, could result in forfeiture of the Property or other material impairment of Lender's interest in the Property or rights under this Security Instrument. Borrower can cure such a default and, if acceleration has occurred, reinstate as provided in Section 16, by causing the action or proceeding to be dismissed with a ruling that, in Lender's judgment, precludes forfeiture of the Property or other material impairment of Lender's interest in the Property or rights under this Security Instrument. The proceeds of any award or claim for damages that are attributable to the impairment of Lender's interest in the Property are hereby assigned and shall be paid to Lender.

All Miscellaneous Proceeds that are not applied to restoration or repair of the Property shall be applied in the order provided for in Section 2.

9. Borrower Not Released; Forbearance By Lender Not a Waiver. Extension of the time for payment or modification of amortization of the sums secured by this Security Instrument granted by Lender to Borrower or any Successor in Interest of Borrower shall not operate to release the liability of Borrower or any Successors in Interest of Borrower. Lender shall not be required to commence proceedings against any Successor in Interest of Borrower or to refuse to extend time for payment or otherwise modify amortization of the sums secured by this Security Instrument by reason of any demand made by the original Borrower or any Successors in Interest of Borrower. Any forbearance by Lender in exercising any right or remedy including, without limitation, Lender's acceptance of payments from third persons, entities or Successors in Interest of Borrower or in amounts less than the amount then due, shall not be a waiver of or preclude the exercise of any right or remedy.

10. Joint and Several Liability; Co-signers; Successors and Assigns Bound. Borrower covenants and agrees that Borrower's obligations and liability shall be joint and several. However, any Borrower who co-signs this Security Instrument but does not execute the Note (a "co-signer"): (a) is co-signing this Security Instrument only to mortgage, grant and convey the co-signer's interest in the Property under the terms of this Security Instrument; (b) is not personally obligated to pay the sums secured by this Security Instrument; and (c) agrees that Lender and any other Borrower can agree to extend, modify, forbear or make any accommodations with regard to the terms of this Security Instrument or the Note without the co-signer's consent.

Subject to the provisions of Section 15, any Successor in Interest of Borrower who assumes Borrower's obligations under this Security Instrument in writing, and is approved by Lender, shall obtain all of Borrower's rights and benefits under this Security Instrument. Borrower shall not be released from Borrower's obligations and liability under this Security Instrument unless Lender agrees to such release in writing. The covenants and agreements of this Security Instrument shall bind (except as provided in Section 17) and benefit the successors and assigns of Lender.

11. Loan Charges. Lender may charge Borrower fees for services performed in connection with Borrower's default, for the purpose of protecting Lender's interest in the Property and rights under this Security Instrument, including, but not limited to, attorneys' fees, property inspection and valuation fees. In regard to any other fees, the absence of express authority in this Security Instrument to charge a specific fee to Borrower shall not be construed as a prohibition on the charging of such fee. Lender may not charge fees that are expressly prohibited by this Security Instrument or by Applicable Law.

If the Loan is subject to a law which sets maximum loan charges, and that law is finally interpreted so that the interest or other loan charges collected or to be collected in connection with the Loan exceed the permitted limits, then: (a) any such loan charge shall be reduced by the amount necessary to reduce the charge to the permitted limit; and (b) any sums already collected from Borrower which exceeded permitted limits will be refunded to Borrower. Lender may choose to make this refund by reducing the principal owed under the Note or by making a direct payment to Borrower. If a refund reduces principal, the reduction will be treated as a partial prepayment without any prepayment charge (whether or not a prepayment charge is provided for under the Note). Borrower's acceptance of any such refund made by direct payment to Borrower will constitute a waiver of any right of action Borrower might have arising out of such overcharge.

12. Notices. All notices given by Borrower or Lender in connection with this Security Instrument must be in writing. Any notice to Borrower in connection with this Security Instrument shall be deemed to have been given to Borrower when mailed by first class mail or when actually delivered to Borrower's notice address if sent by other means. Notice to any one Borrower shall constitute notice to all Borrowers unless Applicable Law expressly requires otherwise. The notice address shall be the Property Address unless Borrower has designated a substitute notice address by notice to Lender. Borrower shall promptly notify Lender of Borrower's change of address. If Lender specifies a procedure for reporting Borrower's change of address, then Borrower shall only report a change of address through that specified procedure. There may be only one designated notice address under this Security Instrument at any one time. Any notice to Lender shall be given by delivering it or by mailing it by first class mail to Lender's address stated herein unless Lender has designated another address by notice to Borrower. Any notice in connection with this Security Instrument shall not be deemed to have been given to Lender until actually received by Lender. If any notice required by this

If Lender gives notices of default to Borrower: (i) all Rents received by Borrower shall be held by Borrower as trustee for the benefit of Lender only, to be applied to the sums secured by the Security Instrument; (ii) Lender shall be entitled to collect and receive all of the Rents of the Property; (iii) Borrower agrees that each tenant of the Property shall pay all Rents due and unpaid to Lender or Lender's agents upon Lender's written demand to the tenant; (iv) unless applicable law provides otherwise, all Rents collected by Lender or Lender's agents shall be applied first to the costs of taking control of and managing the Property and collecting the Rents, including, but not limited to, attorneys' fees, receiver's fees, premiums on receiver's bonds, repair and maintenance costs, insurance premiums, taxes, assessments and other charges on the Property, and then to the sums secured by the Security Instrument; (v) Lender, Lender's agents or any judicially appointed receiver shall be liable to account for only those Rents actually received; and (vi) Lender shall be entitled to have a receiver appointed to take possession of and manage the Property and collect the Rents and profits derived from the Property without any showing as to the inadequacy of the Property as security.

If the Rents of the Property are not sufficient to cover the costs of taking control of and managing the Property and of collecting the Rents any funds expended by Lender for such purposes shall become indebtedness of Borrower to Lender secured by the Security Instrument pursuant to Section 7 of the Security Instrument.

Borrower represents and warrants that Borrower has not executed any prior assignment of the Rents and has not performed, and will not perform, any act that would prevent Lender from exercising its rights under this paragraph. Lender, or Lender's agents or a judicially appointed receiver, shall not be required to enter upon, take control of or maintain the Property before or after giving notice of default to Borrower. However, Lender, or Lender's agents or a judicially appointed receiver, may do so at any time when a default occurs. Any application of Rents shall not cure or waive any default or invalidate any other right or remedy of Lender. This assignment of Rents of the Property shall terminate when all the sums secured by the Security Instrument are paid in full.

24. Cross-Default Provision. Borrower's default or breach under any note or agreement in which Lender has an interest shall be a breach under the Security Instrument and Lender may invoke any of the remedies permitted by the Security Instrument.

NON-UNIFORM COVENANTS. Borrower and Lender further covenant and agree as follows:

25. Acceleration; Remedies. Lender shall give notice to Borrower prior to acceleration following Borrower's breach of any covenant or agreement in this Security Instrument (but not prior to acceleration under Section 15 unless Applicable Law provides otherwise). Lender shall notify Borrower of, among other things: (a) the default; (b) the action required to cure the default; (c) when the default must be cured; and (d) that failure to cure the default as specified may result in acceleration of the sums secured by this Security Instrument, foreclosure by judicial proceeding and sale of the Property. Lender shall further inform Borrower of the right to reinstate after acceleration and the right to assert in the foreclosure proceeding the non-existence of a default or any other defense of Borrower to acceleration and foreclosure. If the default is not cured as specified, Lender at its option may require immediate payment in full of all sums secured by this Security Instrument without further demand and may foreclose this Security Instrument by judicial proceeding. Lender shall be entitled to collect all expenses incurred in pursuing the remedies provided in this Section 25, including, but not limited to, attorneys' fees and costs of title evidence to the extent permitted by Applicable Law.

26. Release. Upon payment of all sums secured by this Security Instrument, this Security Instrument and the estate conveyed shall terminate and become void. After such occurrence, Lender shall discharge and satisfy this Security Instrument. Borrower shall pay any recordation costs. Lender may charge Borrower a fee for releasing this Security Instrument, but only if the fee is paid to a third party for services rendered and the charging of the fee is permitted under Applicable Law.

27. Waivers. Borrower, to the extent permitted by Applicable Law, waives and releases any error or defects in proceedings to enforce this Security Instrument, and hereby waives the benefit of any present or future laws providing for stay of execution, extension of time, exemption from attachment, levy and sale, and homestead exemption.

28. Reinstatement Period. Borrower's time to reinstate provided in Section 16 shall extend to one hour prior to the commencement of bidding at a sheriff's sale or other sale pursuant to this Security Instrument.

29. Purchase Money Mortgage. If any of the debt secured by this Security Instrument is lent to Borrower to acquire title to the Property, this Security Instrument shall be a purchase money mortgage.

30. Interest Rate After Judgment. Borrower agrees that the interest rate payable after a judgment is entered on the Note or in an action of mortgage foreclosure shall be the rate payable from time to time under the Note.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Security Instrument and in any Rider executed by Borrower and recorded with it.

_____(Seal)
- Borrower

_____(Seal)
- Borrower

_____(Seal)
- Borrower

_____(Seal)
- Borrower

_____[Space Below This Line For Acknowledgment]_____

Certificate of Residence:

I/We do hereby certify that the precise address of the within named mortgagee, assignee or person entitled to interest is

By: _____

Title: _____

Freddie Mac Single-Family Seller/Servicer Guide / Single-Family Seller/Servicer Guide, Volume 1 / Chs. 39-45: Property Eligibility / Chapter 39: Title Insurance / 39.4: Acceptable exceptions to title insurance or to attorney's opinion of title (10/06/06)

39.4: Acceptable exceptions to title insurance or to attorney's opinion of title (10/06/06)

The following exceptions to the title insurance policy or to the attorney's opinion of title are acceptable:

(a) Subsurface public utility easements

Exceptions for subsurface public utility easements for local residential distribution, such as lines for gas and water, and cable for electric, telephone or television utilities, are acceptable provided that the location of the easements is ascertainable and fixed. The exercise of the rights thereunder must not interfere with the use and enjoyment of any present improvements on the Mortgaged Premises or proposed improvements on which the appraisal or Mortgage is based.

(b) Surface public utility easements

Exceptions for surface easements for public utilities for local residential distribution are acceptable provided that the location of the easements is ascertainable and fixed. The exercise of the rights thereunder must not interfere with the use and enjoyment of any of the following:

- Present improvements on the Mortgaged Premises
- Proposed improvements upon which the appraisal or Mortgage is based
- Part of the Mortgaged Premises outside the easement and not occupied by improvements

(c) Encroachments on public utility easements

Exceptions for encroachments on easements for public utilities by a garage, tool shed or similar structure that is not attached to, or a portion of, the dwelling structure are acceptable provided that the encroachments do not interfere with the use and enjoyment of the easements or the exercise of rights of repair and maintenance in connection therewith.

(d) Restrictive agreements

Exceptions for restrictive agreements or restrictive covenants of record related to cost, use, setback, minimum size and building materials, and architectural, aesthetic or similar matters (other than single-family-use restrictions on 2- to 4-unit properties) are acceptable provided that the following conditions are met:

- The restrictive agreements or restrictive covenants do not create or provide for any lien that would be prior to the lien of the Home Mortgage nor provide for the elimination of the lien of the Home Mortgage
- The terms and provisions of the restrictive agreements or restrictive covenants are commonly acceptable to private institutional Mortgage investors in the area where the Mortgaged Premises are located
- An endorsement to the title insurance policy affirmatively insures that no violation of any such restrictive agreement or restrictive covenant exists and that any future violation shall not result in forfeiture or reversion of title

(e)

Mutual easement agreements

Exceptions for mutual easement agreements of record that establish a joint driveway or a party wall are acceptable if such improvements are constructed in any of the following ways:

- Partly on the Mortgaged Premises and partly on adjoining property, or
- Wholly on the Mortgaged Premises, or
- Wholly on the adjoining property

The easement agreement must allow all present and future owners and their heirs, successors and assigns forever, unlimited use and enjoyment of the driveway or party wall without any restriction other than restriction by reason of the mutual easement owners' rights in common and duties for joint maintenance.

(f) Fence misplacements

Exceptions for fence misplacements on either side of the property line of the Mortgaged Premises, are acceptable provided that neither the misplacement, nor a future correction thereof, will interfere with the use and enjoyment of any improvements on the Mortgaged Premises nor with the use and enjoyment of the balance of the Mortgaged Premises not occupied by improvements. The definition of fence in this section shall not include retaining walls or other permanent structures.

(g) Encroachments on the Mortgaged Premises by improvements on adjoining property

Exceptions for encroachments on the Mortgaged Premises by improvements on adjoining property are acceptable provided that the following conditions are met:

- The encroachment must not touch any improvements on the Mortgaged Premises
- The encroachment must not interfere with the use and enjoyment of any improvements on the Mortgaged Premises nor with the use and enjoyment of the Mortgaged Premises not occupied by improvements

(h) Encroachments on adjoining property

Exceptions for encroachments on adjoining property by eaves or other projections attached to improvements on the Mortgaged Premises, or by structures such as tool sheds, or by a driveway appurtenant to the Mortgaged Premises are acceptable provided that there is an endorsement to the title insurance policy whereby the policy affirmatively insures against loss suffered by reason of the entry of a decree or court order requiring the removal of the encroachment.

(i) Oil, gas, water and mineral rights

Exceptions for outstanding oil, gas, water or mineral rights are acceptable if commonly granted by private institutional Mortgage investors in the area where the Mortgaged Premises are located, and:

- The exercise of such rights will not result in damage to the Mortgaged Premises or impairment of the use or marketability of the Mortgaged Premises for residential purposes and there is no right of surface or subsurface entry within 200 feet of the residential structure, or
- There is a comprehensive endorsement to the title insurance policy that affirmatively insures the lender against damage or loss due to the exercise of such rights

(j) Liens for taxes not due

Exceptions for liens for real estate or ad valorem taxes and assessments that specifically state that such liens are not yet due and payable are acceptable.

(k) Sums readvanced

This includes the priority of the lien for any sum repaid and subsequently readvanced under the terms of the Mortgage insured thereby.

(l) Tenants in possession

Exceptions for rights of tenants in possession, as tenants only, under prior unrecorded leases, are acceptable.

(m) Other exceptions

Any exception not set forth above in Sections 39.4(a) through 39.4(l) is acceptable only if all of the following conditions are met:

1. The subject of the exception must not interfere with the use and enjoyment of any present or proposed improvements on the Mortgaged Premises or with the use and enjoyment of the balance of the Mortgaged Premises not occupied by improvements
2. The subject of the exception must not affect the marketability of the Mortgaged Premises
3. The subject of the exception must have no or minimal effect on the value of the Mortgaged Premises
4. The subject of the exception must be acceptable to the MI if the Mortgage is insured
5. The subject of the exception must be commonly acceptable to private institutional Mortgage investors in the area where the Mortgaged Premises are located

The Seller shall warrant that all exceptions to the title insurance policy or to the attorney's opinion of title are permissible under this section. Freddie Mac will not issue any letters addressing the acceptability of particular exceptions nor waivers of the above requirements.

Valuation Analysis for Single Family One- to Four- Unit Dwellings

Directive Number: 4150.2, CHG-1

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U.S. Department of Housing and Urban Development

Special Attention of: **Transmittal for Handbook No.: 4150.2, CHG-1**

Directors, Home Ownership Centers

Directors, Processing and Underwriting **Issued: July 1, 1999**

Division, Home Ownership Centers

Direct Endorsement Lenders

1. This Transmits

Changes to Handbook 4150.2, Valuation Analysis for Single Family One- to Four-Unit Dwellings, dated July 1999

2. Explanation of Changes:

This handbook has been revised to correct several minor errors in this new handbook. Specifically, the word "location" has been changed to "site" on several pages noted below under Filing Instructions. On pages 2-12 and D-25, the size of stationary storage tanks in determining the eligibility of a site has been changed from 100 gallons to 1000 gallons. (The change has also been made to the Notice to Lender, [HUD form 92564-VC](#), referenced in Handbook 4150.2.) The ownership information requirements of the appraisal protocol on page D-1 have been revised to account for refinance transactions. In addition, in Section B-1, the percentage floor area used for commercial purposes follows these standards:

- One story building 25%
- Two story building 49%
- Three story building 33%

This change corrects the reversal of the percentages for two- and three-story buildings.

3. Handbook Cancellations: None

4. Filing Instructions:

Remove: Insert:

Pages i and ii, dated 5/99

Pages v and vi, dated 5/99

Pages 2-1 through 2-12, dated 5/99

Pages 4-11 and 4-12, dated 5/99

Pages 5-1 and 5-2, dated 5/99

Pages 7-3 and 7-4, dated 5/99

Pages 8-1 through 8-3, dated 5/99

Page 9-3, dated 5/99

Pages A-9 and A-10, dated 5/99
dated 5/99

Pages D-1 and D-2, dated 5/99

Pages D-23 through D-26, dated 5/99

Pages D-33 through D-35, dated 5/99

Pages i and ii, dated 6/99

Pages v and vi, dated 6/99

Pages 2-1 through 2-12, dated 6/99

Pages 4-11 and 4-12, dated 6/99

Pages 5-1 and 5-2, dated 6/99

Pages 7-3 and 7-4, dated 6/99

Pages B-1 through 8-3, dated 6/99

Page 9-3, dated 6/99

Pages A-9 and A-10, dated 6/99
Pages B-1 and B-2, dated 6/99

Pages D-1 and D-2, dated 6/99

Pages D-23 through D-26, dated 6/99

Pages D-33 through D-35, dated 6/99

Distribution: W-3-1, R-1, R-2, R-3-1(H) (RC), R-3-2, R-3-3, R-6, R-6-2, R-7, R-7-2, R-8, ASC

[Click Here to Download Complete Handbook](#)

U.S. Department of Housing and Urban Development

Special Attention of: TRANSMITTAL Handbook No. 4150.2

Directors, Home Ownership Centers
Directors, Processing and Underwriting Issued: June 24, 1999
Divisions, Home Ownership Centers
Direct Endorsement Lenders

1. This Transmits:

Changes to Handbook 4150.2, Valuation Analysis for Single Family One- to Four- Unit Dwellings, dated July 1999

2. Explanation of Changes:

This handbook has been revised to correct several minor errors in this new handbook. Specifically, the word "location" has been changed to "site" on several pages noted below under Filing Instructions. In addition, in Section B-1, the percentage floor area used for commercial purposes follows these standards:

- One story building 25 %
- Two story building 49 %
- Three story building 33 %

This change corrects the reversal of the percentages for two and three story buildings.

3. Handbook Cancellations: None

4. Filing Instructions:

Change "location" to "site" on the following pages:

Page i Page 5-2

Page vPage 7-4

Page 2-1 Page 8-2

Page 2-2 Page 8-3

Page 2-4 Page 9-3

Page 2-5 Page A-9

Page 2-7 Page D-2

Page 2-8 Page D-24

Page 2-9 Page D-25

Page 2-12Page D-34

Page 4-11Page D-35

U.S. Department of Housing and Urban Development

Special Attention of: Transmittal for
Handbook No.: 4150.2

Directors, Homeownership Centers
Directors, Processing and Underwriting Issued: May 20, 1999
Divisions, Home Ownership Centers
Direct Endorsement Lenders

1. This Transmits

A new Handbook, 4150.2, Valuation Analysis for Home Mortgage Insurance for Single Family One- to Four- Unit Dwellings. This handbook replaces and supercedes most of the provisions of Handbook 4150.1 REV-1, identified below under the heading of "HANDBOOKS".

2. Explanation of Materials Transmitted:

This handbook reflects policy clarifications and improvements since March 15, 1990 on valuation requirements for existing, proposed and new construction of one- to four-family units for mortgage insurance purposes. The new Handbook incorporates and updates the sections of Mortgagee Letters and other HUD Handbooks that are relevant to appraisals. The following section identifies those Mortgagee Letters and Handbooks.

MORTGAGEE LETTERS

These Mortgagee Letters have been incorporated in part or in full into the Handbook:

97-46 Appraisal Management Firms
97-41 Clarification of 97-22 Regarding New Construction in Flood Plains
97-22 FHA New Construction, Inspection and Appraisal Requirements Sections: Cost Approach, Valuation Conditions, Appraisal Form
96-29 Paperwork Reduction, Lead-Based Paint Disclosure
Section: Lead-based Paint
96-26 Appraiser Standards
96-5 Elimination of the Fee Panel and Mortgagee Staff Appraiser Designations
95-40 Revisions to the 203(k) Rehabilitation Mortgage Insurance Program
95-34 Testing of and On-Site Well/Septic System Inspections (Web)
94-54 Procedures for Lenders to Use to Select Their Own Appraisers Sections III and IV
94-36 Clarification of ML 92-18: Testing of Individual Wells
94-26 HUD Reorganization
94-11 Revisions to the 203k Rehabilitation Insurance Program Item 18
94-6 Processing Sec 248 - Indian Reservations Item 1-10
94-3 Revised Appraisal Report Forms,
92-18 Single Family Loan Production - Acceptance of Individual Residential Water Purification Equipment;
Section 3.6.1.6
91-1 Implementation of Certain Provisions of the 1990 Housing Legislation Section X

HANDBOOKS

The following chapters/paragraphs for the handbook identified below have been incorporated into the new Handbook 4150.2. The information has been updated to reflect the newest policies and procedures. Because these Handbooks were written primarily for lenders, builders or HUD staff, the instruction relevant to the appraiser has been extracted. The portions of these documents relevant to lender requirements have not been superceded.

Distribution: W-3-1, R-1, R-2, R-3-1 (H) (RC), R-3-2, R-3-3, R-6, R-6-2, R-7, R-7-2, R-8, ASC

4000.2 REV-2 Mortgagees' Handbook Application through Insurance (Single Family)

Paragraph 2--General Acceptability Standards for Property
Paragraph 2-12--The Appraisal Package

Paragraph 2-15--Review of the Appraisal
Paragraph 2-18--Compliance Inspection
Paragraph 2-19--Satisfying Repair Requirements
Paragraph 2-20--Section 223(e)
Paragraph 2-23--Delivery of Statement of Appraised Value
Paragraph 4-3--Reconsideration: Changes Involving Property
Paragraph 6-5--Section 203(k)

4000.4 REV-1 Single Family Direct Endorsement Program

Paragraph I-6--Minimum Property Standards
Paragraph 1-7--Eligibility of Condominium Projects
Paragraph 3-3--Property Valuation Procedures
Paragraph 3-14--Lead-Based Paint Hazard
Paragraph 4-9 D--Post-Endorsement Technical Review

4020.1 HUD-FHA Underwriting Analysis

Paragraph 1-8--Instruction for the Selection and Approval of Fee Personnel
Paragraph 1-11--Training
Paragraph 3-6--Differentiation between Valuation and Mortgage Risk Analysis
Chapter 4--Eligibility Requirements

4125.1 Underwriting - Technical Direction for Home Mortgage Insurance

Paragraph 1-13--Field Review

4150.1 Valuation Analysis for Home Mortgage Insurance

All Chapters have been incorporated except for the following; they are to remain in place for lender instructions as outstanding policy and procedures for valuation analysis.

Paragraph 4-12--Study Of Future Utility Of Property
Chapter 6, Section 4--Modified Cost
Chapter 6, Section 5--Leaseholds
Paragraph 8-4--Reconsideration Of Appraised Value
Paragraph 10-5--Processing Individual Lot Applications
Paragraph 10-6--Undeveloped Lot
Paragraph 10-9--Processing Foreclosed Manufactured Home Sites
Chapter 11--Condominiums And Planned Unit Developments
Paragraph 12-3--Claims Without Conveyance Of Title (CWCOT)
Paragraph 12-5--Mortgage Credit Requests For Appraisal
Paragraph 12-6--Existing Houses Being Moved To New Foundations
Paragraph 12-7--HUD Acceptance Of VA Certification Of Reasonable Value (CRV)
Paragraph 12-8--Application For Operative-Builder Commitments
Paragraph 12-11--Soil Treatment With Individual Water Systems
Paragraph 12-12--Estimate Of Value Of Fragmental Properties
Paragraph 12-16--Water And Sewage Systems
Paragraph 12-17--Shared Wells
Paragraph 12-18--Earth Sheltered Housing
Paragraph 12-19--Dome Homes

4240.4 Rehabilitation Home Mortgage Insurance, Section 203(k)

Paragraph 3-2--Step-by-step Procedures: Appraiser Responsibilities
Chapter 2--Valuation Procedures

4260.1 Miscellaneous Type Home Mortgage Insurance, Sec. 223 (a), (e), and (d)

Paragraph 3-1 e--Administrative Instructions
Paragraph 4-4--Insurance in Older Declining Urban Areas

4265.1 Home Mortgage Insurance Condominium Units

Paragraph 10-2 a--Data Needed for Valuation
Paragraph 10-2 b--Approach to Value
Paragraph 12-12 d--Processing the Unit

4910.1 Minimum Property Standards for Housing, 1994 Edition

Appendix K--Minimum Property Standards for property which is not multifamily or care-type

3. Effective Date: July 1, 1999

4. Filing Instructions:

5. Insert Handbook 4150.2, dated May 20, 1999

William C. Apgar
Assistant Secretary for Housing-Federal Housing Commissioner

FORMS AND REPORTS REFERENCED IN HANDBOOK 4150.2

HUD-92005:Description of Materials

[HUD-92541](#):Builder's Certification

[HUD-92544](#):Builder's Warranty

HUD-92563:Roster Appraiser Designation Application (to be updated)

HUD-92802:Application and Request for Manufactured Home Lot and/or Site Preparation

Homebuyer Summary and Valuation Conditions Form

Marshall and Swift Form 1007

Freddie Mac 704 Form: Second Property Value Analysis and Report

R.S. Means & Company Repair and Modeling Cost Data Book or the Home-Tech Remodeling and Renovation Cost Estimator

Use of Materials Bulletin No. 100, Subject: HUD Building Product Standards & Certification Program for Solar Water Heating Systems-August 15, 1993

Marshall & Swift Cost Handbook - New & Proposed Construction

Marshall & Swift Guide to Construction Costs

Form FW 68: Land Appraisal Report

Uniform Standards of Professional Appraisal

Permanent Foundation Guide for Manufactured Housing

CABO Model Energy Code, 1992 Ed., Residential Buildings

FORMS AND REPORTS REFERENCED IN HANDBOOK 4150.2

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Marshall & Swift Guide to Construction Costs

Form FW 68: Land Appraisal Report

Uniform Standards of Professional Appraisal

Permanent Foundation Guide for Manufactured Housing

CABO Model Energy Code, 1992 Ed., Residential Buildings

FOREWORD

PURPOSES OF HANDBOOK These are the purposes of this Handbook:

- o Provide guidance for appraisers on how to appraise existing, proposed and new construction of one-to four-family homes for which mortgages are to be insured by FHA.

- o Introduce appraisers to the environment of greater accountability associated with recent HUD reforms.

HOME BUYER PROTECTION PLAN On June 1, 1998, HUD launched the HomeBuyer Protection Plan. The Plan reforms the appraisal process to ensure that home buyers seeking FHA-insured mortgages receive accurate and complete appraisals of the homes they seek to purchase. If homebuyers do not receive adequate appraisals, they may have to make extensive repairs to make their homes habitable. As a result of the additional financial burden, they may default on their FHA-insured mortgages.

THE NEW HUD VALUATION CONDITIONS FORM As part of the HomeBuyer Protection Plan, HUD has revised the Valuation Conditions (VC) Form. This new form:

- o Requires submission of valuation condition information for all appraisals
 - o Transforms the former VC form into a series of "yes-or-no questions" based on readily observable physical conditions of the subject property
 - o Summarizes the information on the physical condition of the property for the Homebuyer

THE PERFORMANCE MEASUREMENT FRAMEWORK Another significant change reflected in this Handbook is the introduction of performance measures for appraisers. The performance measurement framework is designed to achieve improvements in the performance and professionalism of appraisers on the FHA Register.

HUD will measure appraiser performance in the following five performance categories:

- o Appraisal process
- o Appraisal reporting
- o Valuation conditions
- o Maintaining state licensure
- o Responsiveness to field review

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As part of this new framework, HUD will develop statistical indicators to identify poor appraisals and appraisers, and will inform appraisers of its enforcement efforts.

ENFORCEMENT AND SANCTIONS In addition to providing clear sanctions, HUD has enhanced enforcement efforts by creating an Enforcement Center. The Enforcement Center will provide administrative support for the management of the sanction process.

RESOURCES Questions and comments can be sent electronically to REAC's Internet website at reacone@hud.gov

The Help Desk will be available beginning on May 5, 1999 Monday through Friday from 7:30 a.m. to 8:00 p.m. EST for questions. The telephone number is (888) 245-4860.

1 SELECTION OF APPRAISER

1-0 INTRODUCTION

The success of the FHA insurance program and HUD's ability to protect its financial interest begins with selecting qualified and knowledgeable appraisers. This chapter presents the minimum requirements that appraisers must meet to be placed on the FHA Register.

1-1 FHA REGISTER [<TOP>](#)

The FHA Register lists appraisers who are eligible to perform FHA single-family appraisals. To conduct an appraisal for FHA insurance endorsement, the appraiser must be on the FHA Register.

Appraiser achieves necessary credentials

Appraiser applies to HUD

HUD reviews application

Appraiser placed on FHA Register

A. APPRAISER CREDENTIALS

To be eligible for placement on the FHA Register, all appraisers must be state-licensed or state-certified and must not be listed on any of these:

- GSA's Suspension and Debarment List (the government-wide list of parties excluded from federal procurement or non-procurement programs)
- HUD's Limited Denial of Participation List
- HUD's Credit Alert Interactive Voice Response System (CAIVRS)

To be eligible to perform appraisals for FHA, the appraiser must also pass a HUD//FHA test on appraisal methods and reporting, which focuses on applied knowledge of the new Handbook [4150.2](#).

A uniform national examination will be available June 1, 1999. The examination contains fifty questions in a multiple-choice format. The test will be administered by a national provider and the cost paid by the appraiser. Appraisers currently on the FHA Register will be grandfathered until January 30, 2000.

B. REGISTER APPLICATION PROCESS

The application process is the first screening of the appraiser's qualifications to perform HUD/FHA appraisals. To apply, appraisers must submit the following to FHA:

- Updated form [HUD-92563](#) "Register Appraiser Designation Application"
- A copy of a current valid appraisal license and/or certification verification that the appraiser has passed the FHA Examination

HUD will review this information to determine the appraiser's eligibility for the FHA Register.

C. APPLICANT REVIEW

To verify that the appraiser is eligible to perform HUD/FHA appraisals, REAC performs a detailed review of the appraiser's professional qualifications and checks for any negative information. The review does the following:

- verifies that the appraiser is state-licensed or state-certified under the Appraisal Qualifications Board (AQB) criteria
- verifies that the appraiser has passed the FHA Appraisals Methods and Procedures test
- pre-screens the appraiser's social security number in the HUD/FHA Credit Alert Interactive Voice Response System (CAIVRS)
- reviews HUD records to ensure that the appraiser has no pending suspensions, disqualifications or debarments
- verifies with the appraiser's signature that there are no actions or pending judgments against the appraiser for waste, fraud, abuse or breach of professional ethics or standards
- reviews the previous period's performance, if applicable.

D. DESIGNATION TO THE FHA REGISTER

When the review of the application is complete, the appraiser is designated to the FHA Register. New appraisers recently added to the FHA Register may be monitored and reviewed more frequently to ensure that their performance is consistent with HUD/ FHA guidelines and to monitor training needs.

Because the initial application to the FHA Register will occur after the appraiser has become state-licensed or state-certified, the first term will coincide with the remaining period of state licensing for the home state. After this initial period, the FHA Register period will be consistent with the home state license period.

Each period, every appraiser must re-apply to the FHA Register, concurrent with the appraiser's application for state licensing and/or re-certification. HUD reviews the appraiser's performance and compliance with new testing requirements and verifies that the appraiser is state- certified or state-licensed.

For more information on the review process, see Chapter 6 of this Handbook.

1-2 LENDER SELECTION OF THE APPRAISER [<TOP>](#)

Lender Lender Lender Appraiser Lender
selects assigns transmits performs reviews
appraiser appraiser case #, if appraisal appraisal
available

When the lender selects an appraiser from the FHA Register, the FHA Connection processes a case number for the lender. The lender may assign the appraiser before receiving the case number, but the case may not be submitted for endorsement without the case number. The case number must be placed on all copies of the URAR as well as the VC form and summary. The mortgagee will give the appraiser:

- the property address
- type of construction
- number of units
- other information necessary for the assignment

If the property is a condominium or a Planned Unit Development (PUD), the lender will verify that it is HUD-approved before ordering a case number or having an appraisal performed. The lender will give the appraiser the project name and ID number and all available property information. If it is proposed construction for a PUD or Condominium, it must be FHA-approved before ordering a case number. The name of the Condominium or PUD must be given.

A. NON-DISCRIMINATION POLICY

The Department's regulations on choosing appraisers state that there shall be no discrimination on the basis of race, color, religion, national origin, sex, age or disability.

HUD expects lenders to comply with anti-discrimination requirements and affirmatively select female and minority appraisers for a fair share of appraisals commensurate with their representation on the FHA Register. HUD will monitor lenders' choice of appraisers by their sex and race.

B. CONTRACTUAL RESPONSIBILITY OF APPRAISERS

The appraiser is hired by the lender, and therefore has a contractual responsibility to the lender. However, the appraiser provides services for HUD programs, and therefore, has an obligation to perform these services commensurate with the standards and requirements of HUD. This dual responsibility of the appraiser is recognized in the review and reporting requirements of HUD. The lender and the appraiser must meet their respective obligations as prescribed by HUD/FHA. Therefore, the intended user of the appraisal report is also HUD. These contractual obligations to the lender and HUD/FHA are in addition to the appraiser's legal obligations to his or her credentialing state.

C. COMMUNICATION WITH APPRAISERS

HUD/FHA mortgage insurance is initiated when a lender selects an appraiser from the FHA Register. Once the appraiser agrees to perform the appraisal, the appraiser is in a contractual relationship with the lender. The appraiser will send the completed appraisal directly to the lender. HUD advises the appraiser to discuss the appraisal only with the underwriter. No other individual should contact the appraiser before the appraisal has been completed. Real estate brokers and agents should consider the lender their sole source of information on the appraisal and all matters related to the appraisal.

D. APPRAISAL FEES

The appraiser and the lender will negotiate the price and due date. HUD does not establish fees or due dates. The fee is paid for market value estimate based on guidelines consistent with HUD policy and

procedure established in this Handbook. The fee is not based on a requested minimum valuation, a specific valuation or the approval of a loan. Lenders may charge the borrower only what is customary and reasonable in the area to obtain an appraisal.

Appraisal management firms may charge the mortgagor a fee for the appraisal that may encompass fees for services performed by the firm as well as fees for the appraisal itself. However, the total of these fees is limited to the customary and reasonable fee for an appraisal in the market area where the appraisal is performed. Such arrangements must comply with all aspects of the Real Estate Settlement Procedures Act (RESPA) and its implementing regulations, including restrictions against:

- kickbacks and referral fees
- charges for settlement services that were not actually performed payments in affiliated business arrangements other than return on ownership

2 SITE ANALYSIS

2-0 INTRODUCTION [<TOP>](#)

This Chapter addresses the site requirements for FHA-insured mortgages. Before the valuation process can begin, subject properties must meet specific site requirements. The appraisal process is the lender's tool for determining if a property meets the minimum requirements and eligibility standards for a FHA-insured mortgage. In addition, these standards provide a context for the appraiser in performing the physical inspection of the property.

2-1 SITE REQUIREMENTS [<TOP>](#)

The purpose of site analysis is to identify the various site characteristics that affect the marketability and the value of the subject property. Site analysis requires the following:

- determining the desirability and utility of the site
- determining the degree and extent to which the site, because of external influences, shares in the market for comparable and competitive sites in the community
- forecasting the likely changes at the site because of justifiable future trends
- appraising the current situation and knowledge of the various trends that could affect the valuation of the real property

The principal of change is fundamental to appraising real estate and to properly analyzing a site. Value is created and modified by economic, social and governmental changes that occur outside the property. Evaluate the direction of these trends and determine their effect, if any, on the current value of the subject property.

A. NEIGHBORHOOD DEFINITION

The appraiser must clearly define the boundaries - north, south, east and west - of the subject neighborhood. By defining the neighborhood, the appraiser can extract pertinent information on which to base valuation conclusions.

B. COMPETITIVE SITES

Sites are competitive when they are improved with, or appropriate for, residential properties that are similar in accommodations and sales price or rental range for similar residents or prospective occupants. Compare features of the subject site with the same features of competitive sites within the community. An acceptable site must be related to the needs of the prospective occupants and to the alternatives available to them in other competitive locations.

C. DEFINITIONS - CONSTRUCTION STATUS

Proposed - No concrete or permanent material has been placed. Digging of footing and placement of re-bar is not considered permanent.

Under Construction - From the first placement of concrete (permanent material) to 100% completion. Finalized and ready to occupy.

Existing - 100% complete and has occupancy permit.

Existing less than one year - Appraisal performed less than one year since receipt of final occupancy permit issued. For model homes, age begins with issuing of permit to use as a model.

For any home less than 2 years old, list month and year completed in the age box on the URAR.

D. ECONOMIC TRENDS

The appraiser must give consideration to, and include in the value analysis, the economic trends of a neighborhood and the general area, including:

- price and wage levels (the purchasing power of community occupants)
- employment characteristics
- the current supply and demand for residential dwellings, including projects under construction
- taxation levels
- building costs
- population changes
- activity of real estate sales market and mortgage
- interest rates

E. LAND USE RESTRICTIONS

Site analysis determines the effects of actual and potential neighborhood land use on the subject site. The following factors form patterns for present and future land uses:

1. Zoning

The appraiser should consider the effect on the value of appropriate and well-drawn zoning ordinances. Land-use controls that receive public approval and are strictly enforced protect residential sites from adverse influences that diminish the desirability of sites. This must be noted on the URAR, and its effect must be quantified in the valuation analysis.

2. Protective Easement/Covenants

Properly drawn protective covenants have proven more effective than zoning regulations in providing protection from adverse environmental influences. When combined with proper zoning ordinances, these covenants provide the maximum legal protection to ensure that a developed residential area will maintain desirable characteristics or that a proposed or partially built-up neighborhood will develop in a desirable manner. Protective easements and covenants should be superior to any mortgage and should be binding to all parties and all persons claiming under them. These must be noted on the URAR and its effect must be quantified in the Valuation Analysis.

3. Inharmonious Land Uses

The appraiser must identify all inharmonious land uses in a neighborhood that affect value. Clearly define the current and long-term effect that inharmonious uses will have on the market value and the economic life of the subject property. If inharmonious land use represents a serious detriment to either the health or safety of the occupants or to the economic security of the property, clearly note safety of the occupants or

to the economic security of the property, clearly note this on the VC and URAR. Recommend that the property be rejected by the Lender.

4. Natural Physical Features

The appraiser must consider favorable and underlying topography and site features, including pleasing views, wood lots, broad vistas and climatic advantages. Streets that are laid out with proper regard to drainage, land contours and traffic flow show good design and increase the desirability of the neighborhood. This must be noted on the URAR and its effect must be quantified in the valuation analysis.

5. Attractiveness of Neighborhood Buildings

The overall appeal of a neighborhood is strengthened if the buildings in a neighborhood harmonize with each other and their physical surroundings. A pleasing variety that results in harmoniously blended properties is desirable but not mandatory. The age of the structure is not in itself an important consideration; however, the maintenance of the structure over time has an important impact. Consider the amount of rehabilitation that has taken place or is taking place in a neighborhood. This must be noted on the URAR and its effect must be quantified in the valuation analysis.

6. Neighborhood Character

Mobility and economic growth can alter neighborhood patterns. Shopping, recreation, places of worship, schools and places of employment should be easily accessible. This must be noted on the URAR and its effect must be quantified in the valuation analysis.

7. Character of Neighborhood Structures

The appraiser must carefully analyze the age, quality, obsolescence and appropriateness of typical properties in a neighborhood. Take into account the attitude of the user group as well as the alternative choices available to the specific market under consideration. This must be noted on the URAR and its effect must be quantified in the valuation analysis.

F. COMMUNITY SERVICES

Community services include commercial, civic and social centers. For a neighborhood to remain stable and retain a high degree of desirability, it should be adequately served by elementary and secondary schools, neighborhood shopping centers, churches, playgrounds, parks, community halls, libraries, hospitals and theaters. A lack of services in the community should be noted and quantified in the valuation analysis. The appraiser must note a change in these services and quantify the effect on value.

G. TRANSPORTATION

Ready access to places of employment, shopping, civic centers, social centers and adjacent neighborhoods is a requisite of neighborhood stability. The appraiser must take into consideration the transportation requirements of the typical family and quantify the effect on value.

H. UTILITIES AND SERVICES

The appraiser must consider these utilities and neighborhood services: police and fire protection, telephone services, electricity, natural gas, garbage disposal, street lighting, water supply, sewage disposal, drainage, street improvements and maintenance. Public services and utilities can affect value and must be quantified. A lack of these services should be noted and quantified in the valuation analysis.

I. NEIGHBORHOOD CHANGE CONSIDERATIONS

As time passes, desirability changes residential areas in any location. Therefore, give special consideration to the following:

- infiltration of commercial, industrial or nonconforming use
- positive and negative effect on value of gentrification
- changes in the mobility of people (employment shifts)
- weakly enforced zoning regulation or covenants

J. MARKETABILITY

The demand for home ownership in a neighborhood is directly related to the marketability of the homes in the neighborhood or in competitive neighborhoods. Home ownership rates, vacancies and the marketing time of dwellings in a neighborhood help the appraiser determine the strength of market demand and the extent of supply.

K. SMALL COMMUNITY MARKET PREFERENCES

A small town may have its own set of standards in architectural design, livability, style of mechanical equipment, lot size, placement of structures, nature street improvements and in all features of the physical property and environment. Judge each in light of local standards and preferences.

L. OUTLYING SITES AND ISOLATED SITES

The segment of the market interested in purchasing homes in these sites compares the advantages and disadvantages of other outlying or isolated locations.

M. STUDY OF FUTURE UTILITY

The study of future utility is typically covered in the appraiser's Highest and Best Use Analysis and includes:

- o selecting possible uses
- o rejecting uses that are obviously lower or higher than the most probable use
- o analyzing differing motives of those buyers

The study of the future uses and utility of a particular property will lead the appraiser to the property's Highest and Best Use.

N. CONSIDERATION OF GENERAL TAXES AND SPECIAL ASSESSMENTS

When estimating value, account for general taxes and special

- o General real estate taxes related to specific sites are a recurring periodic expense in the ownership of taxable real property and must be accounted for in the value estimate.
- o Special assessments of various types are frequently an additional expense of ownership and must similarly be accounted for in the value estimate

Determine the relative effect of the real estate tax and/or special assessment's burden on the desirability of the site. Enter this information on the URAR.

1. Assessment

The real estate tax liability is computed by multiplying the assessed value by the tax/millage rate, which is typically expressed in dollars per hundred or dollars per thousand of assessed value. In the addendum

to the VC, state the assessment, real estate tax liability and tax year. State the assessed market value of the subject property in the addenda.

If there is no method to relate the assessment to market value, such as new construction where reasonable assessment may not exist, mark the assessed market value response as "N/ A".

2. Special Assessment

A special assessment can be calculated in two ways:

- the same way as real estate taxes, or
- on a pro-rated basis

Determine how the special assessment is calculated and report the special assessment liability on the URAR.

If the property does not have special assessment, mark the URAR "N/A".

For example: An organization that services a community creates an annual operating budget. Each property becomes liable for its percentage of that budget based on the percentage of front feet their property has compared to the total amount of front feet as a special assessment in this community.

2-2 SPECIAL NEIGHBORHOOD HAZARDS AND NUISANCES [<TOP>](#)

Physical conditions in some neighborhoods are hazardous to the personal health and safety of residents and may endanger physical improvements. These conditions include unusual topography, subsidence, flood zones, unstable soils, traffic hazards and various types of grossly offensive nuisances.

When reporting the appraisal, consider site hazards and nuisances.

- If site hazards exist and cannot be corrected but do not meet the level of unacceptability, the appraisal must be based upon the current state.
- If the hazard and/or nuisance endangers the health and safety of the occupants or the marketability of the property, mark "YES" in VC-1 and return the unfinished appraisal to the lender.

The lender, who is ultimately responsible for rejecting the site, relies on the appraiser's site analysis to make this determination. Guidelines for determining site acceptability follow. The appraiser is required to note only those readily observable conditions.

A. UNACCEPTABLE SITES

FHA guidelines require that a site be rejected if the property being appraised is subject to hazards, environmental contaminants, noxious odors, offensive sights or excessive noises to the point of endangering the physical improvements or affecting the livability of the property, its marketability or the health and safety of its occupants. Rejection may also be appropriate if the future economic life of the property is shortened by obvious and compelling pressure to a higher use, making a long-term mortgage impractical.

These considerations for rejection apply on a case-by-case basis, taking into account the needs and desires of the purchaser. For example, a site should not be considered unacceptable simply because it

abuts a commercial use; some commercial uses may not appeal to a specific market segment while other commercial uses may.

If the condition is clearly a health and safety violation, reject the appraisal and return it to the lender. If there is any doubt as to the severity, report the condition and submit the completed report. The lender must clear the condition and may require an inspection or reject the property. For those conditions that cannot be repaired, such as site factors, the appraised value is based upon the existing conditions.

B. TOPOGRAPHY

There are special hazards caused by unique topography. For example, denuded slopes, soil erosion and landslides often adversely affect the marketability of hillside areas. When evaluating the site, consider earth and mud slides from adjoining properties, falling rocks and avalanches. These occurrences are associated with steep grades and must be considered in the site analysis.

C. SUBSIDENCE

Danger of subsidence is a special hazard that may be encountered under a variety of circumstances:

- where buildings are constructed on uncontrolled fill or unsuitable soil containing foreign matter such as organic material
- where the subsoil is unstable and subject to slippage or expansion

In mining areas, consider the depth or extent of mining operations and the site of operating or abandoned shafts or tunnels to determine if the danger is imminent, probable or negligible.

The appraiser must note any readily observable conditions, which indicate potential problems. Signs include fissure or cracks in the terrain, damaged foundations, sinkholes or settlement problems.

If there is a danger of subsidence, the specific site will be deemed ineligible unless complete and satisfactory evidence can be secured to establish that the probability of any threat is negligible.

If there is evidence of subsidence, the property is ineligible. Mark the "YES" column in VC-1 under subsidence.

D. OPERATING AND ABANDONED OIL OR GAS WELLS

Operating and abandoned oil and gas wells pose potential hazards to housing, including potential fire, explosion, spray and other pollution.

1. Existing Construction

No existing dwelling may be located closer than 300 feet from an active or planned drilling site. Note that this applies to the site boundary, not to the actual well site.

2. New or Proposed Construction

If an operating well is located in a single-family subdivision, no new or proposed construction may be built within 75 feet of the operating well unless mitigation measures are taken. This measure is designed to:

- avoid nuisance during maintenance
- diminish noise levels caused by pumping
- reduce the likelihood of contamination by potential spills

The appraiser must examine the site for the existence of or any readily observable evidence of a well.

3. Abandoned Well

A letter may be obtained from the responsible authority in the state government stating that the subject well was safely and permanently abandoned.

- When such a letter is provided, a dwelling may be located no closer than 10 feet from the abandoned well.
- When a letter is not provided, the dwelling must be located at least 300 feet from the abandoned well.

The lender is responsible for obtaining the letter; the appraiser must note the location of the well and verify the existence of the letter.

4. Special Case - Proposed, Existing or Abandoned Wells

Hydrogen sulfide gas emitted from petroleum product wells is toxic and extremely hazardous. Minimum clearance from sour gas wells may be established only after a petroleum engineer has assessed the risk and state authorities have concurred on clearance recommendations for petroleum industry regulation and for public health and safety.

- If there is readily observable evidence that the conditions exist, mark the "YES" column in VC-1 under operating and abandoned wells.
- If an inspection by a qualified person verifies that the condition exists and is acceptable based on the standards defined above, account for the presence of wells in the valuation of the property.

E. SLUSH PITS

A slush pit is a basin in which drilling "mud" is mixed and circulated during drilling to lubricate and cool the drill bit and to flush away rock cuttings. Drilling mud normally contains large quantities of bentonite - a very expansive soil material. This results in a site with the potential for great soil volume change and, therefore, damage to structures.

To be eligible for FHA mortgage insurance, all unstable and toxic materials must be removed and the pit must be filled with compacted selected materials.

>If a property is proposed near an active or abandoned well, call for a survey to locate the pits and their impact on the subject property.

>If there is any readily observable evidence of slush pits, mark the "YES" column in VC-1.

F. HEAVY TRAFFIC

Close proximity to heavily traveled roadways can have a negative effect on the marketability and value of sites because of excess noise and danger. Properties backing to freeways or other thoroughfares that are heavily screened or where traffic is well below grade and at a sufficient distance from the property may not affect value. For detailed noise acceptance levels, reference 24 CFR 51.103.

> If there is significant noise or unsafe traffic conditions that endanger the occupants or affect the marketability of the property, mark "YES" in VC-1.

Typically, traffic hazards cannot be corrected. Therefore, the appraiser must quantify the effect on value if the property is marketable. This adjustment should be supported by comparable transactions. This condition could be the reason that a lender ultimately rejects the property. Do not reject existing

properties only because of heavy traffic if there is evidence of acceptance within the market and if use of the dwelling is expected to continue.

G. AIRPORT NOISE AND HAZARDS

(2-2) Sites near, an airport may be subjected to the noise and hazards of low-flying aircraft. Appraisers must identify affected properties, review airport contour maps and condition the appraisal accordingly.

Do not reject existing properties only because of airport influences if there is evidence of acceptance within the market and if use of the dwelling is expected to continue. HUD's position is that because the properties are in use and are expected to be in use into the near future, their marketability should be the strongest indicator of their acceptability. Marketability should account for the following considerations:

- o plans for future expansion of airport facilities
- o prospective increases in the number of planes or flights using the field or specific runways
- o the timing and frequency of the volume of flights
- o any other factors that may increase the annoyance of having the airport nearby excessive noise

If changes are likely, the appraiser must anticipate any adverse effect that these changes are likely to have on the marketability of the property. The appraiser should judge each situation on its merits. Compare the effect of aircraft activity on the desirability of a particular site with other sites that are:

- o improved with similar structures
- o considered competitive with those located in the subject neighborhood

H. SPECIAL AIRPORT HAZARDS

HUD requires that the buyer of a property located in a Runway Clear Zone/Clear Zone is advised that the property is located in such a zone and of the implications associated with that site. This includes the possibility that the airport operator could acquire the property in the future.

1. New and Proposed Construction

New and proposed construction within Runway Clear Zones (also known as Runway Protection Zones) at civil airports or within Clear Zones at military airfields are ineligible for home mortgage insurance.

Properties located in Accident Potential Zone I at military airfields may be eligible for FHA insurance provided that the property is compatible with Department of Defense guidelines. For more information, see 24 CFR 51.303(b).

If new or proposed construction lies within these zones, mark "YES" in VC-1.

2. Existing Construction

Existing dwellings more than one year old are eligible for FHA mortgage insurance if the prospective purchaser acknowledges awareness that the property is located in a Runway Clear Zone/Clear Zone. The lender will furnish this disclosure form to the buyer. For a sample of the buyer's acknowledgment certification, see HUD Handbook 4150.1, REV-1, Chapters 4-26 (a) and (b).

Note whether the property is in a Clear Zone and condition the appraisal on the buyer's acknowledgment.

I. PROXIMITY TO HIGH PRESSURE GAS

A dwelling or related property improvement near high- pressure gas, liquid petroleum pipelines or other volatile and explosive products - both above ground and subsurface must be located outside of the outer boundary of the pipeline easement.

> If the property is less than ten feet away, mark "YES" in VC-1.

J. OVERHEAD HIGH-VOLTAGE TRANSMISSION LINES

No dwelling or related property improvement may be located within the engineering (designed) fall distance of any pole, tower or support structure of a high-voltage transmission line, radio/TV transmission tower, microwave relay dish or tower or satellite dish (radio, TV cable, etc.). For field analysis, the appraiser may use tower height as the fall distance.

For the purpose of this Handbook, a High-Voltage Electric Transmission Line is a power line that carries high voltage between a generating plant and a substation. These lines are usually 60 Kilovolts (kV) and greater, and are considered hazardous. Lines with capacity of 12-60 kV and above are considered high voltage for the purpose of this Handbook. High voltage lines do not include local distribution and service lines.

Low voltage power lines are distribution lines that commonly supply power to housing developments and similar facilities. These lines are usually 12 kV or less and are considered to be a minimum hazard. These lines may not pass directly over any structure, including pools, on the property being insured by HUD.

> If the property is within the unacceptable distance, mark "YES" in VC-1.

K. SMOKE, FUMES, OFFENSIVE NOISES AND ODORS

Excessive smoke, fog, chemical fumes, noxious odors, stagnant ponds or marshes, poor surface drainage and excessive dampness are hazardous to the health of neighborhood occupants and adversely affect the market value of the subject property.

>If these conditions threaten the health and safety of the occupants or the marketability of the property, mark "YES" in VC-1. If, however, the extent of the hazard is not dangerous, account for its effect in the valuation of the property.

>Include other factors that may affect valuation such as offensive odors and unsightly neighborhood features such as stables or kennels.

L. FLOOD HAZARD AREAS

Designation of Special Flood Hazard Areas

(2-2) The Federal Emergency Management Agency (FEMA) determines Special Flood Hazard Areas nationwide, (SFHA). FEMA issues Flood Hazard Boundary Maps to designate these areas in a community. A special flood hazard may be designated as Zone A, AO, AH, AI-30, AE, A99, VO or VI-30, VE or V.

- o Only those properties within zones 'A' and 'V' require flood insurance.
- o Zones 'B' or 'C' do not require flood insurance because FEMA designates only zones 'A' and 'V' as "Special Flood Hazard Areas."

An appraisal report with a positive indication in a Special Flood Hazard Area (SFHA) activates a commitment requirement for flood insurance coverage. The appraiser must quantify the effect on value, if any, for properties within a designated flood map.

A lender shall reject a property in any of these circumstances:

- o if the property is subject to frequently recurring flooding
- o if there is any potential hazard to life or safety

- o if escape to higher ground would not be feasible during severe flooding conditions

FEMA Maps

For copies of FEMA's Flood Hazard Boundary Maps and Flood Insurance Rate Maps, contact:

Federal Emergency Management Agency (FEMA)
FEMA Map Service Center
P.O. Box 1038
Jessup, MD 20794-1038
Phone: 1-800-358-9616
Fax: 1-800-358-9620

Eligibility of Properties for FHA Insurance

The lender is responsible for determining the eligibility of properties in Flood Zones, and relies on the appraiser's notation on the URAR.

1. New and Proposed Construction

If any part of the property improvements essential to the property value and subject to flood damage are located within the 100-year floodplain, then the entire property, improved and otherwise, is ineligible for FHA mortgage insurance unless a Letter of Map Amendment (LOMA) or a Letter of Map Revision (LOMR) is submitted with the case for endorsement. Proposed construction where improvements are located, or to be located, within a designated Special Flood Hazard Area (SFHA) is ineligible for FHA insurance. This is true regardless of whether the property is covered or will be covered by flood insurance unless the lender can furnish evidence of a LOMA, a LOMR or evidence that the property is not in a SFHA.

For existing properties located in a SFHA, make the appropriate notation in the URAR.

> If the proposed improvements are located in a SFHA and there is no LOMA or LOMR mark "YES" in VC-1 and return the unfinished appraisal to the lender until these documents are retrieved.

2. Existing Construction

Market attitude and acceptance determine the eligibility of existing properties located in a designated SFHA. Flood insurance is required for properties accepted for mortgage insurance in a FEMA-designated SFHA.

3. Condominium

The Homeowners Association is responsible for maintaining flood insurance on the project as a whole, not each individual unit. The appraiser must verify the location of a condominium in the floodplain and make the correct notation in the URAR.

M. STATIONARY STORAGE TANKS

Stationary Storage tanks containing flammable or explosive material pose potential hazards to housing, including hazards from fire and explosions.

> If the property is within 300 feet of a stationary, storage tank containing more than 1000 gallons of flammable or explosive material, the site is ineligible. Mark "YES" in VC-1 and return the unfinished appraisal to the lender.

3 PROPERTY ANALYSIS

3-0 INTRODUCTION [<TOP>](#)

The FHA guidelines for property analysis include specific requirements to which appraisers must adhere for the appraisal to reflect an accurate valuation that will:

- o denote any deficiencies in the subject property
- o protect HUD's interest in that property

The property analysis includes General Acceptability Criteria for conducting the appraisal to address FHA minimum property requirements.

3-1 APPRAISAL REQUIREMENTS [<TOP>](#)

- o The appraiser must make a complete visual inspection of the subject property - interior and exterior - and complete the VC form.
- o The appraiser must take photographs that show the sides, front and rear of the subject property and all improvements on the subject property with any contributory value. A photograph of the street frontage is also required.
- o The appraiser is required to submit a single photograph of each comparable sale transaction in the addenda to the appraisal report.
- o The map of proposed construction must clearly show proposed roadways.
- o The appraiser must provide a copy of a local street map that shows the location of the property and each comparable sale.
- o If the subject property is proposed construction and the improvement has not started, the appraiser should take a photograph that shows the grade of the vacant lot.

3-2 ANALYSIS OF SITE [<TOP>](#)

For both proposed and existing construction, the appraiser must determine the present highest and best use for the site, disregarding improvements that may exist or are proposed for the site. This conclusion serves as the basis of comparison for estimating the market price of the land and discloses the extent to which the existing or proposed building improvements are appropriate or inappropriate for the site. This also forms the basis for selecting comparable land sales.

The appraiser must analyze the site to:

- o establish the basis for comparing the market estimates of sites in the estimate of replacement cost of the property
- o determine suitability for the existing or proposed use

Carefully consider the topography, suitability of soil, off-site improvements, easements, restrictions or encroachments.

A. TOPOGRAPHY

Proper topography and site grading can be important elements in preventing wet basements, damp crawl spaces, erosion of soils, and overflowing sewage disposal systems. To ensure proper protection, the appraiser must analyze the relationship of street grades, floor elevations, and lot grades. If the

foundation or its bearing soils may be affected by seepage or frost, the dwelling is unacceptable unless the surface and subsurface water is diverted from the structures to ensure positive drainage away from the foundation.

B. SUITABILITY OF SOIL

Consider the readily observable soil and subsoil conditions of the site including the type and permeability of the soil, the location of the water table, surface drainage conditions, compaction, rock formations and other physical features that affect the value of the site or its suitability for development. Also observe the effects of the adverse features of the adjoining land.

C. OFF-SITE IMPROVEMENTS

Consider the off-site improvements adjoining the subject property, including street surface, curbs, sidewalks, curb cuts, driveways, aprons, etc., that are not contained within the legal boundaries of the site but enhance the market acceptance and the use and livability of the property. Also consider these situations:

- o Compare the subject property with the immediate neighborhood to determine the dominant off-site improvements required by the market. Note any necessary off-site improvements that are not in existence or are proposed for the subject property and adjust for them in the market value.

- o Any proposals for installing off-site improvements and levying assessments by the local governing body in the near future may affect value. These proposals will necessitate a commitment condition that requires the installation of improvements and the payment of the assessment before or immediately after insurance endorsement.

D. EASEMENTS, RESTRICTIONS OR ENCROACHMENTS

Consider all easements, restrictions or encroachments and their impact on the market value of the subject property and list them on the appraisal. These factors are often discovered during the survey and title report once the appraisal has begun. Perform limited due diligence to verify the existence of these types of significant limiting factors. Also record these items in the URAR which were considered in the value estimate.

E. ENCROACHMENTS

As a general rule, an encroachment will cause a property to be ineligible for FHA mortgage insurance. However, there are exceptions to this rule and further information can be found by calling the lender. The appraiser should identify any of these conditions:

- o encroachment of a dwelling, garage, another physical structure or other improvement onto an adjacent property, right-of-way or utility easement

- o encroachment of a dwelling, garage, another physical structure or improvements on the subject property

- o encroachment of a dwelling, garage or another physical structure into the setback requirement

An encroachment may be acceptable if the adjoining landowner or the local governing authority provides a perpetual encroachment easement that is filed in the County Clerk and Recorder's Office. The Direct Endorsement under-writer will handle this issue under the General Waiver guidelines.

3-3 ANALYSIS OF PHYSICAL IMPROVEMENTS [<TOP>](#)

Analysis of the physical improvements results in conclusions as to the desirability, utility and appropriateness of the physical improvements as factors in determining mortgage risk and the ultimate estimate of value.

A. GROSS LIVING AREA

Gross Living Area is the total area of finished, above-grade residential space. It is calculated by measuring the outside perimeter of the structure and includes only finished, habitable, above-grade living space. Finished basements and unfinished attic areas are not included in total gross living area. The appraiser must match the measurement techniques used for the subject to the comparable sales. It is important to apply this measurement technique and report the building dimensions consistently because failure to do so can impair the quality of the appraisal report.

B. BASEMENT BEDROOMS, BASEMENT APARTMENTS

As a rule basement space does not count as habitable space. If the bedroom does not have proper light and ventilation, the room can not be included in the gross living area. The following requirements apply to the valuation of below-grade rooms:

- o The windowsill may not be higher than 44 inches from the floor.
- o The windowsill must have a net clear opening (width x height) of at least 24 inches by 36 inches.
- o The window should be at ground level; however, compensating factors may allow less.

In all cases, use reasonable care and judgment. If these standards are not substantially met, the basement area cannot be counted as habitable space.

C. DESIGN

Design is the cohesive element that blends the structural, functional and decorative elements of a property into a whole. With good design, the property's parts will be in harmony (each part with all the other parts). The whole property,

in turn, will be in harmony with its immediate site and environment.

Because good design is recognized and desired, the economic life of properties and neighborhoods will be extended and prices will typically exceed those for properties offering the same number of rooms and area but lacking good design. This competitive advantage usually continues through the entire economic life of the property.

The appraiser must recognize this demonstrable price differential and reflect it in the comparative adjustments of market data and the final finding of value.

D. CONFORMITY OF PROPERTY TO NEIGHBORHOOD

A residential property with good physical characteristics may not necessarily be good security for a mortgage loan, even if it is situated in a good location. The property may be entirely appropriate at another location, but not in its actual location. The property may be displeasing when viewed in relation to its surroundings, and it may not conform in other respects to the most marketable use in the particular neighborhood. When determining the effect of property-neighborhood relationships to marketability, consider elements other than similarity of physical characteristics.

Analysis of the Elements of Conformity. Analysis of Conformity requires consideration of Suitability of Use-Type, Appropriateness of Functional Characteristics, Harmony of Design and Relation of Expense of Ownership to Family Income Levels.

- o Suitability of Use-Type. The term Use-Type refers to the use for which a dwelling is designed - single-family, two-family, etc. In most neighborhoods only one use-type is suitable. In some neighborhoods, however, because of their heterogeneous development, several use-types may be found suitable.
- o Appropriateness of Functional Characteristics. Functional Characteristics refer to the living facilities provided in a residential property. They relate to site use and to arrangement, number and size of rooms. Usually well-defined neighborhood market preferences are observable.

Nonconformity may exist because of the placement of the house on the site. Carefully consider any deviation from the accustomed or accepted placement to determine whether it adversely affects desirability.

If a site is substantially smaller than the size typical in the neighborhood, marketability may be limited. The shape or topography of a particular lot may make it less desirable than those typical of the area.

The number, arrangement and size of rooms frequently conform to definite preferences in given neighborhoods. In some localities where one-story dwellings dominate, a two-story dwelling may meet considerable market resistance.

- o Harmony of Design. Conformity of the exterior design of a structure with other structures in the immediate neighborhood is not important unless it contrasts inharmoniously with them. There may be considerable variety in the exterior design of dwellings in a neighborhood and yet each may present a pleasing appearance when viewed in relation to its surroundings. On the other hand, a dwelling may be without any architectural faults and yet clash so violently with the design of neighboring properties that marketability may be seriously limited.

- o Relation of Ownership Expense to Family Incomes. Families usually select homes in neighborhoods where typical occupants have financial means similar to their own. A home that is too costly for these families to purchase or maintain will have limited marketability.

3-4 REMAINING ECONOMIC LIFE OF BUILDING IMPROVEMENTS [<TOP>](#)

Because a building is subject to physical deterioration and obsolescence, its period of usefulness is limited. As a building deteriorates or becomes obsolete, its ability to serve useful purposes decreases and eventually ends. This may occur gradually or rapidly.

A. ECONOMIC LIFE VS. PHYSICAL LIFE

- o The total physical life of a building is the period from the time of completion until it is no longer fit or safe for use or when maintaining the building in a safe, usable manner is no longer practicable.
- o The total economic life of a building is the period of time from its completion until it can no longer produce services or net returns over and above a return on the land value.

Economic life can never be longer than the physical life, but may be and frequently is shorter. A structure that is sound and in good physical condition with many years of physical life remaining may have reached the end of its economic life - if its remaining years of physical usefulness will not be profitable.

B. ESTIMATION OF REMAINING ECONOMIC LIFE

In predicting the remaining economic life of a building, consider these factors:

- o the economic background of the community or region and the need for accommodations of the type represented
- o the relationship between the property and the immediate environment the architectural design, style and utility from a functional point of view and the likelihood of obsolescence attributable to new inventions, new materials and changes in tastes
- o the trends and rate of change of characteristics of the neighborhood and their effect on land values
- o workmanship, durability of construction and the rate with which natural forces cause physical deterioration
- o the physical condition and probable cost of maintenance and repair, the maintenance policy of owners and occupants and the use or abuse to which structures are subjected

C. END OF USEFUL LIFE OF BUILDING IMPROVEMENTS

The useful life of a building has come to an end:

- o when the building can no longer produce annual income or services sufficient to offset maintenance expense, insurance and taxes to produce returns on the value of the land

AND

- o when rehabilitation is not feasible

The improvements on the lot at the time have no more value than the amount obtainable from a purchaser who will buy them and remove them from the site.

3-5 CODE ENFORCEMENT FOR EXISTING PROPERTIES [<TOP>](#)

Local municipalities design local housing code standards; therefore, enforcement of such housing standards rests with the local authority. HUD does not have the authority or the responsibility for enforcing local housing codes except for mortgages on properties to be insured under Section 221(d)(2)-a program with mortgage limits at \$36,000. Loans insured under Section 221(d)(2) of the National Housing Act require code enforcement. The appraiser should contact the lender for further instructions if the mortgage is to be insured under Section 221(d)(2).

3-6 GENERAL ACCEPTABILITY CRITERIA FOR FHA-INSURED MORTGAGES

[<TOP>](#)

These criteria define standards for existing properties to be eligible for FHA mortgage insurance. Underwriters bear primary responsibility for determining eligibility; however, the appraiser is the on-site representative for the lender and provides preliminary verification that these standards have been met. Many of the requirements are technical and beyond the expertise of the appraiser. They are presented here for reference, and the appraiser's responsibility is noted by category.

These criteria form the basis for identifying the deficiencies of the property that the appraiser must note in the VC form and that must be addressed by the lender before closing. When examination of existing construction reveals noncompliance with the General

Acceptability Criteria, an appropriate specific condition to correct the deficiency is required if correction is feasible. If correction is not feasible and compliance can be effected only by major repairs or alterations, the lender will reject the property. The appraiser is only required to note conditions that are readily observable.

As-Repaired Appraisal. The appraiser prepares the valuation "as-repaired" subject to the conditions noted on the VC form. Those items not listed on the VC will form the basis of comparison to comparable properties for physical conditions.

Required repairs are limited to those repairs necessary to preserve the continued marketability of the property and to protect the health and safety of the occupants.

Deferred Maintenance. Any operable or useful element that will have reached the end of its useful life within two years should be replaced. With respect to such deferred maintenance items, exercise good judgment in requiring repair.

Replacement Because of Age. If an element is functioning well, do not recommend replacement simply because of its age.

> If the septic system shows evidence of failure because of age, recommend a specific inspection.

Valuation Conditions. The Valuation Conditions Form and its protocol help the appraiser evaluate the standards required by the General Acceptability Criteria. The criteria are described below. The appraiser must ascertain if the condition called for exists and mark yes if it does.

> If the observed deficiencies exist, mark "YES" in the appropriate location on the Valuation Conditions Form, condition the appraisal on the requirement for repair or further inspection and prepare the appraisal "as-repaired" subject to the satisfaction of the condition.

The following guidelines are HUD's General Acceptability Criteria for existing properties. They provide general guidance for determining the property's eligibility for FHA mortgage insurance. For instructions on filling out the VC form, see the protocol in Appendix D.

A. GENERAL ACCEPTABILITY CRITERIA

These minimum requirements for existing housing apply to existing buildings and to the sites on which they are located. The buildings may be:

- o detached
- o semidetached
- o multiplex
- o row houses
- o individual condominium units

These requirements also cover the immediate site environment for the dwelling, including streets, other services and facilities associated with the site.

1. Subject Property

The subject property must be adequately identified as a single, marketable real estate entity. However, a primary plot with a secondary plot for an appurtenant garage or for another use contributing to the

marketability of the property will be acceptable if the two plots are contiguous and comprise a readily marketable real estate entity.

2. Hazards

The property must be free of all known hazards and adverse conditions that:

- o may affect the health and safety of the occupants
- o may affect the structural soundness of the improvements
- o may impair the customary use and enjoyment of the property

These hazards include toxic chemicals, radioactive materials, other pollution, hazardous activities, potential damage from soil or other differential ground movements, ground water, inadequate surface drainage, flood, erosion, excessive noise and other hazards on or off site.

> If the property meets the acceptability guidelines in the VC protocol (Appendix D), quantify the deficiency's impact in the property valuation.

> If the property does not meet the acceptability guidelines, note the appropriate hazard in VC-1 and explain.

In the appraisal of new and proposed construction, special conditions may exist or arise during construction that were unforeseen and necessitate precautionary or hazard mitigation measures. HUD will require corrective work to mitigate potential adverse effects from the special conditions as necessary. Special conditions include:

- o rock formations
- o unstable soils or slopes
- o high ground water levels
- o springs
- o other conditions that may have a negative effect on the property value

The builder must ensure proper design, construction and satisfactory performance when any of these issues are present.

For specific instructions about noting this information in the VC form, see VC-1 in the protocol (Appendix D).

3. Soil Contamination

a. Septic and Sewage

If a septic system is part of the subject property, the appraiser must determine whether the area is free of conditions that adversely affect the operation of the system. Consider the following:

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- (3-6) o the type of system
- o topography
 - o depth to ground water

- o soil permeability
- o the type of soil to a depth several feet below the surface

If in doubt about the operation of sewage disposal systems in the neighborhood, mark "YES" in VC-2, condition the appraisal on further inspection and prepare the appraisal "as-repaired" subject to satisfaction of the condition.

The lender will contact the local health authority or a professional to determine the viability of the system.

b. Other Soil Contaminants

The following conditions may indicate unacceptable levels of soil contamination: pools of liquid, pits, ponds, lagoons, stressed vegetation, stained soils or pavement, drums or odors.

> If there is evidence of hazardous substances in the soil, require further inspection. Mark "YES" in VC-2, condition the appraisal on further inspection and prepare the appraisal "as-repaired" subject to the satisfaction of condition.

c. Underground Storage Tanks

During the site inspection, the appraiser must walk the property and search for readily observable evidence of underground storage tanks. Evidence would include fill pipes, pumps, ventilation caps, etc.

> If there is evidence of underground storage tanks, require further analysis. Mark "YES" in VC-2, condition the appraisal on that requirement and prepare the appraisal "as-repaired" subject to the satisfaction of the condition.

4. Drainage

The site must be graded to provide positive drainage away from the perimeter walls of the dwelling and to prevent standing water on the site. Signs of inadequate draining include standing water proximate to the structure and no mitigation measures such as gutters or downspouts.

For specific instructions about noting this information in the VC form, see VC-3 in the protocol (Appendix D).

> If drainage is inadequate and needs improvement, mark "YES" in VC-3, make a repair requirement, condition the appraisal on that requirement and prepare the appraisal "as-repaired" subject to the satisfaction of the condition.

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(3-6)5. Water Supply And Sewage Systems

Each living unit must contain the following:

- o domestic hot water
- o a continuing and sufficient supply of potable water under adequate pressure and of appropriate quality for all household uses
- o sanitary facilities and a safe method of sewage disposal

Connection must be made to a public water/sewer system or a community water/sewer system, if connection costs to the public or community system are reasonable (3% or less of the estimated value of

the property). If connection costs exceed 3%, the existing on-site systems will be acceptable provided they are functioning properly and meet the requirements of the local health department.

> If the correction is feasible, require connection. Mark "YES" in VC-4, condition the appraisal on the requirement and prepare the appraisal "as repaired" subject to the satisfaction of the condition.

a. Individual Water Supply and Sewage Disposal Systems

If water and sewer systems are not connected to public systems, the water well and/or septic system must meet the requirements of the local health authority with jurisdiction. If the local authority does not have specific requirements, the maximum contaminant levels established by the Environmental Protection Agency (EPA) will apply. If the authority is unable to perform the water quality analysis in a timely manner, a private commercial testing laboratory or a licensed sanitary engineer acceptable to the authority may take and test water samples.

- o Each living unit must be provided with a sewage disposal system that is adequate to dispose of all domestic wastes and does not create a nuisance or in any way endanger the public health.

- o Individual pit privies are permitted where such facilities are customary and are the only feasible means of waste disposal and, if they are installed in accordance with the recommendations of the local Department of Health.

> If there is a well or septic system on the property, mark "YES" in VC4, condition the appraisal on further inspection by the lender and prepare the appraisal "as-repaired" subject to satisfaction of the condition.

A domestic well must be a minimum of 50 feet from a septic tank, 100 feet from the septic tank's drain field and a minimum of 10 feet from any property line.

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> Clearly show the location of private wells and septic systems on the site sketch and note the distance between the two.

b. Unacceptable Conditions

The following water well conditions are unacceptable and must be noted in VC-4:

- o mechanical chlorinators

- o water flow that decreases noticeably when simultaneously running water in several plumbing fixtures (the well may not be able to provide a continuous, adequate supply of water)

- o properties served by dug wells unless a complete survey conducted by an engineer was delivered to the lender and subsequently given to the appraiser

- o properties served by springs, lakes, rivers or cisterns (3-6)

To be considered acceptable, the engineer's survey must include these items:

- o a health report with no qualifications

- o indication that an inoperative well was cased, sealed and capped with concrete to a depth of at least 20 feet

- o a pump test indicating a flow of at least 3-5 gallons per minute supply for an existing well, and 5 gallons per minute for a new well

- o an acceptable septic report

- o no indication of exposure to environmental contamination, mechanical chlorination or anything else that adversely affects health and safety

>If these requirements for individual wells or septic tanks are not met, note them in VC-4 and prepare the appraisal "as-repaired" subject to further inspection.

The lender will require the engineer's follow-up report and will arrange for any required corrective measures.

6. Wood Structural Components: Termites

Termites can cause serious problems in the wood structural components of a house and may go undetected for a long period of time. FHA requires maximum assurances that a home is free of any infestation. A pest inspection is always required for:

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- (3-6) o any structure that is ground level
- o any structure where the wood touches ground

Structures in a geographic area with no active termite infestation may not require a pest inspection. However, the appraiser must always note:

- o any infestation
- o any damage resulting from previous infestation
- o whether damage from infestation has been repaired or is in need of repair

Observe all areas of the property that have potential for termite infestation, including the bottoms of exterior doors and frames, and wood siding in contact with the ground and crawl spaces. Examine mud tunnels running from the ground up the side of the house for possible evidence of termite infestation.

> If there is any evidence of termite infestation, require an inspection by a reputable licensed termite company. Mark "YES" in VC-5, condition the appraisal on the requirement and prepare the appraisal "as-repaired" subject to the satisfaction of the condition.

For specific instructions on noting this information in the VC Form, see VC-5 in the protocol (Appendix D).

7. Streets

Each property must be provided with safe and adequate pedestrian and vehicular access from a public or private street. Private streets must be protected by permanent recorded easements and have joint maintenance agreements or be owned and maintained by a HOA.

All streets must provide all-weather access to all buildings for essential and emergency use, including access for deliveries, service, maintenance and fire equipment. FHA defines all-weather surface as a road surface over which emergency vehicles can pass in all types of weather. Streets must either be:

- o dedicated to public use and maintenance

OR

- o retained as private streets protected by permanent f recorded easements (when approved by HUD)

> If these requirements are not met, mark "YES" in VC-6 and prepare the appraisal "as-repaired" subject to the correction of this deficiency.

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(3-6)8. Defective Conditions

A property with defective conditions is unacceptable until the defects or conditions have been remedied and the probability of further damage eliminated.

Defective conditions include:

- o defective construction
- o poor workmanship
- o evidence of continuing settlement
- o excessive dampness
- o leakage
- o decay
- o termites
- o other readily observable conditions that impair the safety, sanitation or structural soundness of the dwelling

The items outlined in VC-7: Structural Conditions, are meant to alert the appraiser and the lender to the possibility of defective conditions. These items are readily identifiable characteristics that could indicate one of the defective conditions.

9. Ventilation

Natural ventilation of structural space - such as attics and crawl spaces - must be provided to reduce the effect of excess heat and moisture that are conducive to decay and deterioration of the structure. All attics must have ventilation to allow moisture and excessive heat to escape. The appraiser must check the attic areas to determine whether the ventilation is adequate.

> If ventilation is not provided, make a condition for repair, mark "YES" in VC7 and prepare the appraisal 'as-repaired" subject to the satisfaction of the condition.

10. Foundations

All foundations must be adequate to withstand all normal loads imposed. Stone and brick foundations are acceptable if they are in good condition. The appraiser must review the conditions in VC-8 for evidence of conditions that could indicate safety or structural deficiencies that may require repair.

>If the foundation is deficient, mark "YES" in VC-8 and prepare the appraisal "as-repaired" subject to the repair of the deficiencies.

11. Crawl Space

To ensure against conditions that could cause the property to deteriorate and seriously affect the marketability of the property, it is required that:

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(3-6) o There must be adequate access to the crawl space; the appraiser must be able to access the crawl space for inspection. Access is defined as ability to visually examine all areas the crawl space. Specifically, the minimum distance is 18 inches.

oThe floor joists must be sufficiently above ground level to provide access for maintaining and repairing ductwork and plumbing.

oThe crawl space must be clear of all debris and trash and must be properly vented.

o The crawl space must not be excessively damp and must not have any water ponding.

> If these requirements are not met, mark "YES" in VC-8 and prepare the appraisal "as-repaired" subject to repair of the deficiency.

12. Roof

The covering must prevent moisture from entering and must provide reasonable future utility, durability and economy of maintenance. When re-roofing is needed for a defective roof that has three layers of shingles, all old shingles must be removed before re-roofing. The details of the process are provided in the protocol.

The appraiser must observe the roof to determine whether the deficiencies present a health and safety hazard or do not allow for reasonable future utility. The appraiser is only required to note readily observable conditions.

> If the roof is deficient, mark "YES" in VC-9 and prepare the appraisal "as repaired" subject to the repair of the deficiency.

Flat roofs typically have shorter life spans and therefore require inspection.

> If there is a flat roof mark "YES" in VC-9 and prepare the appraisal "as repaired" subject to further inspection.

13. Mechanical Systems

These are the requirements for mechanical systems:

- o must be safe to operate
- o must be protected from destructive elements
- o must have reasonable future utility, durability and economy
- o must have adequate capacity and quality

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(3-6) The appraiser must observe the systems in VC-10 and determine if any of the conditions do not meet the above stated criteria.

- > If the systems require repair, mark "YES" in VC-10, condition the appraisal on the repair or further inspection and prepare the appraisal "as-repaired" subject to the satisfaction of the condition.
- > If systems could not be operated due to weather conditions, explain that in VC-10, condition the appraisal on assumed functionality, and make a note of this condition on the Homebuyer Summary - Part 3 of the Comprehensive Valuation Package.

14. Heating

Heating must be adequate for healthful and comfortable living conditions:

- o Dwellings that use wood-burning stoves or solar systems as a primary heat source must have permanently installed conventional heating systems that can maintain a temperature of at least 50 degrees F. in areas containing plumbing systems. These systems must be installed in accordance with the manufacturer's recommendations.

- o Properties with electric heating sources must have an acceptable electric service that meets the general requirements of the local municipal standards.

- o All water heaters must have a non-adjustable temperature and pressure-relief valve. If the water heater is in the garage, it must comply with local building codes.

- o All non-conventional heating systems – space heaters and others - must comply with local jurisdictional guidelines.

Solar energy systems are discussed in Appendix B.

15. Electricity

Electricity must be available for lighting and for equipment used in the living unit. Refer to the specific instructions in the protocol (Appendix D) for determining adequate electricity.

16. Other Health And Safety Deficiencies

The appraiser must note and make a repair requirement for any health or safety deficiencies as they relate to the subject property, including:

- o broken windows, doors or steps
- o inadequate or blocked doors
- o steps without a handrail
- o others

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The appraiser must operate a representative number of windows, interior doors and all exterior and garage doors, as well as verify that the electric garage door operator will reverse or stop when met with resistance during closing.

If conditions exist that require repair, mark "YES" in VC-11 and prepare the appraisal "as-repaired" subject to the satisfaction of the condition.

17. Lead-Based Paint And Other Hazards

If the home was built before 1978, the appraiser should note the condition and location of all defective paint in the home. Inspect all interior and exterior surfaces - walls, stairs, deck porch, railing, windows and doors - for defective paint (chipping, flaking or peeling). Exterior surfaces include those surfaces on fences, detached garages, storage sheds and other outbuildings and appurtenant structures.

> If there is evidence of defective paint surfaces, condition the appraisal on their repair, mark "YES" in VC-12 and prepare the appraisal "as-repaired" subject to the satisfaction of the condition.

For condominium units, the appraiser needs to inspect only the exterior surfaces and appurtenant structures of the unit being appraised and address the overall condition, maintenance and appearance of the condominium project.

> If the condominium project was built before 1978 and shows signs of excessive deferred maintenance or defective paint, mark "YES" in VC-13 and prepare the appraisal "as-repaired" subject to the satisfaction of the condition.

B. OTHER CRITERIA

There are other eligibility criteria that are not part of the VC form. The lender bears primary responsibility for these; however, they are provided here so that the appraiser may reference them if questions arise during the property inspection.

1. Party Or Lot Line Wall

There must be adequate space based upon market acceptability between buildings to permit maintenance of the exterior walls for detached homes.

2. Service And Facilities

Trespass. Each living unit must have the capacity to be maintained individually without trespassing on adjoining properties.

Utilities. Utilities must be independent for each living unit except that common services - water, sewer, gas and electricity - may be provided for living units under a single mortgage or ownership.

o Each unit must have separate utility service shut-offs.

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(3-6)o Each unit must have individual meters.

o For living units under separate ownership, common utility services may be provided from the main service to the building line when protected by an easement or covenant and maintenance agreement acceptable to HUD.

o Individual utilities serving a unit must not pass over, under or through another unit, unless:

- Provisions have been made for repairing and maintaining those utilities without trespassing on adjoining properties.

OR

- An easement of covenant is made for permanent right of access for maintenance and repair of utilities.
- o If a single drain line in the building serves more than one unit, the building drain clean-outs must be accessible from the exterior.
- o Other facilities must be independent for each living unit, except common services, such as laundry and storage space or heating, may be provided for two-to-four-living-unit buildings under a single mortgage.

Dedication. Utilities must be located on easements that have been permanently dedicated to the local government or appropriate public utility body. This information must be recorded on the deed record so that the utility services match the easement.

3. Non-Residential Use Design Limitations

A qualified property must be predominantly residential in use and appearance. Any nonresidential use of the property must be subordinate to its residential use, character and appearance. A property, any portion of which is designed or used for nonresidential purposes, is eligible only if the type or extent of the nonresidential use does not impair and/or remove the property's residential character and appearance.

4. Access Onto Property

Access to the living unit must be provided without passing through any other living unit. Access to the rear yard must be provided without passing through any other living unit. For a row-type dwelling, the access may be by an alley, easement or passage through the dwelling.

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(3-6)5. Space Requirements

Each living unit must have the space necessary to ensure suitable living, sleeping, cooking and dining accommodations and sanitation facilities.

6. Bedroom Egress

All bedrooms must have adequate egress to the exterior of the home. If an enclosed patio (solid walls) covers the bedroom window, it is possible that the bedroom won't qualify as a habitable bedroom. Security bars are acceptable if they comply with local fire codes. Occupants of a bedroom must be able to get outside the home if there is a fire.

7. Energy Efficiency

For new and proposed construction and properties less than one year old, all detached one- and two-family dwellings and one-family townhouses not more than three stories in height must comply with the CABO Model Energy Code, 1992 Edition, Residential Buildings, except for sections 101.3.1, 101.3.2, 104 and 105. These sections remain:

- o Section 101.3.2.2, Historic Buildings
- o The Appendix
- o HUD Intermediate MPS Supplement 4930.2 Solar Heating and Domestic Hot Water Systems, 1989 edition

Valuation procedures for solar energy systems can be found in Appendix B.3.

C. CONDITIONS NOT REQUIRING REPAIRS

Conditions that do not ordinarily require repair include any surface treatment, beautification or adornment not required for the preservation of the property.

These are some examples:

- o A wood floor's finish that has worn off to expose the bare wood must be sanded and refinished. However, a wood floor that has darkened with age but has an acceptable finish does not need polishing or refinishing.
- o Peeling interior paint and broken or seriously cracked plaster or sheetrock require repair and repainting, but paint that is adequate though not fresh does not need to be redone.
- o Missing shrubbery or dead grass on an existing property does not need to be replaced.
- o Cleaning or removing carpets is required only when they are so badly soiled that they affect the livability and/or marketability of the property.

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- o Installing paved driveways or aprons should not be required if there is an otherwise acceptable surface.
- o Installing curbs, gutters or partial street paving is not required unless assessment for the same is imminent.
- o Complete replacement of tile floors is not necessary if some tiles do not match, etc.

Avoid unnecessary requirements because they increase housing cost without adding any basic amenities to the property.

D. REPAIR CONDITIONS FOR NEW/PROPOSED CONSTRUCTION

The appraiser must develop the cost approach for new or proposed construction and the normal site development costs must be included in the lot value. Where unusual cuts, fills, retaining walls, etc. are necessary to prepare the site for the proposed building improvements, estimate the amount by which the cost of the work exceeds the cost of preparing typical sites for similar structures from the Marshall and Swift Cost Handbook. This estimate supplements the estimate of the replacement cost of building improvements.

- o When estimating the market price of a site with unusual site characteristics that must be corrected, assume that the site is in the condition that will exist after the corrective work is completed. Disregard the cost of the treatment, but use the value of the improved site in the estimate of the replacement cost of the property.

- o Use the supplemental cost estimate to:
 - determine the extent to which the replacement cost of the property will exceed the cost of a substitute property produced by constructing identical improvements on a typical site
 - indicate the extent to which value may be less than the replacement cost for that part in excess of the cost of preparing the typical site
 - o Do not include the cost of treating unusual site characteristics in the estimate of replacement cost of building improvements. It is necessary to avoid including both the effect of site treatment and the cost of the work in the estimate of replacement cost of the property.

4 THE VALUATION PROCESS

4-0 INTRODUCTION [<TOP>](#)

This Chapter addresses the development of the three approaches to value:

- o Sales Comparison Approach
- o Income Capitalization Approach
- o Cost Approach

It also addresses their impact in arriving at a final value conclusion that reflects the conditions denoted on the Valuation Conditions (VC) Form. These approaches form the foundation for developing a value and lead to the final reconciliation for an estimated market value.

The [VC](#) form identifies key components of the property analysis and requires the appraiser to:

- o describe the results of the visual inspection
- o identify known conditions, if any
- o reconcile their findings with the approaches to value

This Chapter conforms to the current Uniform Standards of Professional Appraisal Practice (USPAP) and the requirements of the URAR. In developing and coming to a conclusion about value, the appraiser must be aware of and comply with all state and federal laws and requirements. Furthermore, strict compliance with USPAP is required for all FHA appraisals.

4-1 MARKET VALUE ESTIMATES [<TOP>](#)

In accordance with HUD/FHA requirements, an appraiser must do the following:

- o define the type of value being considered for the property appraisal
- o ascertain the definition of market value appropriate for the appraisal
- o indicate whether the estimate is the most probable price that the property will sell for on the open market

> Follow the standards of USPAP. Key sections that are most applicable are provided below.

A. DEFINITION OF MARKET VALUE

The definition of market value that applies to HUD/FHA is cited from the Uniform Standards of Professional Appraisal Practice. This is the definition of value which must be used for all appraisals performed for FHA-insured mortgages.

"The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus."

Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

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1. The buyer and seller are typically motivated.
2. Both parties are well informed or well advised, and each is acting in what they consider their best interest.
3. A reasonable time is allowed for exposure in the open market.
4. Payment is made in terms of cash in United States Dollars or in terms of a financial arrangement comparable thereto.
5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions.

(4-1)

B. PROPERTY RIGHTS APPRAISED

Identifying property rights to be valued determines the criteria for selecting market data and for comparable transactions. The following table is an example of property rights.

Property Type	Occupancy	Property Rights Appraised
Single-family Owner		Fee Simple
Two-to-Four family occupied, other units rented	One unit owner-	Leased Fee
All property types	Ground lease	Leasehold Estate

The appraiser examines property rights to determine what rights, if any, the property owner has conveyed to others. The conveyance of rights to others impacts the value of the property. For example, a single-family owner-occupied property has fee simple property rights that are absolute and unencumbered - unlike a leasehold estate where property rights are specified to use and occupancy for a stated term. The appraiser must determine to what extent, if any, the transfer of property rights impacts the property's value.

Fee Simple is defined as absolute ownership unencumbered by any other interest or estate.

Lease Fee is defined as an ownership interest held by a landlord with the right of use and occupancy conveyed by lease to others; usually consists of the right to receive rent and the right to repossession at the termination of lease.

Leasehold Estate is defined as the right to use and occupy real estate for a stated term and under certain conditions that have been conveyed by a lease.

C. PURPOSE

The purpose of an appraisal is the stated reason for performing an appraisal assignment. The purpose is typically stated as the basis for an underwriting decision. For HUD, the purpose is to determine market value for mortgage insurance purposes.

4-2

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D. INTENDED USE OF APPRAISAL/FUNCTION

(4-1)The intended use or function for all appraisals prepared for FHA is to support the underwriting requirements for an FHA-insured mortgage.

E. USE OF THE APPRAISAL

The use of the appraisal is to support FHA's decision to provide mortgage insurance on the real property that is the subject of the appraisal. Therefore, intended users include the lender and HUD.

F. EFFECTIVE DATE OF VALUE

The effective date of value is either the date when the appraiser physically inspects the subject property or another date specifically defined by the lender.

> If another date is used as the effective date, indicate the alternative date and the date on which the subject property was physically inspected.

G. SCOPE

The appraiser must perform a complete appraisal as defined by USPAP, considering all of the applicable approaches to value and developing the appropriate approaches identified in this Handbook. Departure is not allowed.

H. SPECIAL LIMITING CONDITIONS AND ASSUMPTIONS

The appraiser must adequately identify, report and quantify any extraordinary assumptions or limiting conditions that directly impact the valuation. Examples include:

- o a negative external influence (proximity to a municipal landfill, for example)
- o proposed road improvements
- o a pending zone change

4-2 HUD/FHA REQUIREMENTS [<TOP>](#)

HUD/FHA requirements for market value estimates are as follows:

- o The appraiser must appraise the property to determine market value under the requirements detailed in Chapter 4-1 of this Handbook.
- o The appraiser must evaluate the physical condition of the property and note it on the Valuation Conditions (VC) Form of the Comprehensive Valuation Package. Note any necessary repairs. If repairs are in process, disclose the extent or status of those repairs at the time of the appraisal. Always base the value on the completion of repairs and include this as a special limiting condition when repairs are required and expected to be completed.
- o The appraiser must evaluate whether the property is free of hazards, noxious odors, grossly offensive sights or excessive noises that may:

4-3

- endanger the physical improvements
- affect the livability of the property or its marketability
- affect the health and safety of its occupants

> If any of these conditions exist, recommend correction of the problem or rejection of the property and explain.

(4-2)

For more information, see Chapter 2-2 of this Handbook.

o The appraiser must determine if the subject property possesses sufficient remaining economic life to warrant a long-term mortgage, assuming a reasonable level of continued maintenance. If the property does not warrant a long-term mortgage it will be ineligible for FHA mortgage insurance.

o The appraiser must indicate if the property conforms to applicable Minimum HUD/VA Property Requirements detailed in Chapter 3.

> If the property does not conform to the Minimum Property Requirements, note it in the VC section of the appraisal report and require correction of the deficiency or rejection of the property and explain.

> If there are so many necessary repairs that an "as-repaired" value cannot be determined, or if correcting the deficiencies would require major rehabilitation/alterations, return the appraisal to the lender with a detailed explanation.

4-3 NEW AND PROPOSED CONSTRUCTION REQUIREMENTS

Before performing an appraisal for new or proposed construction, the appraiser must have the plans and specifications and a fully completed Builder's Certification. The lender must provide this information to the appraiser prior to issuing the assignment. Without these items, the property will not be acceptable for FHA insurance purposes.

A. NEW CONSTRUCTION

The appraiser must develop the cost approach for new construction less than one year old. Appraise new construction in the same way that existing properties are valued under the specifications outlined in this chapter of the Handbook. Also, consider using the Gross Rent Multiplier method when developing the income approach for three-or four-unit buildings.

B. PROPOSED CONSTRUCTION

Appraise proposed construction consistent with the methodology presented in this chapter. USPAP requires that the appraiser be provided with written specifications of the proposed structure. Specifically, the Lender must provide the appraiser with these documents:

- o builder's plans, specifications and construction documents
- o completed builder's certification (Form HUD-92541)

(4-3)o Builder's Warranty (Form HUD-92544)

- o the 10-year Warranty, when required (the Secretary has proposed a 1-year Home-Owner Warranty period)

- o all reports and information available (i.e. sales agreement, title report, environmental assessments or studies and inspection reports)

> If these documents are not provided, return the incomplete appraisal to the lender. Check the box stating that the valuation is subject to completion and that the value is contingent on the structure receiving a certificate of occupancy.

4-4 UNIQUE PROPERTY APPRAISALS [<TOP>](#)

Appraisers are sometimes faced with unique properties: a log home, an extra small home, lower than normal ceiling heights, etc. Eligibility of these properties depends on whether or not the property is structurally sound and readily marketable. If a property meets these criteria, the appraiser estimates market value. However, depending on the uniqueness of a property, the final determination to accept or reject the property is made by the lending institution's underwriter.

Excess land is another area in which to exercise caution. Land is considered to be excess if it is:

- o larger than what is typical in the neighborhood

AND

- o capable of a separate use

- o If there is excess land, describe it but do not value it. In this instance, the appraisal is based upon a hypothetical condition. A legal description of the portion being appraised is required.

4-5 COST APPROACH [<TOP>](#)

The cost approach is an indication of value based on the premise that a buyer would not pay more for a property than the cost to construct a property of equal utility. The cost approach is not necessarily the best indication of market value for many properties, but it is often applicable for new(er) or proposed construction and special use properties. Such situations include the following for single family one- to four-unit dwellings:

Property Age Cost-Approach Requirement

Proposed Construction Required

New Construction Required

Existing, less than one year Required

Existing, regardless of age
Market acceptability of
cost as an
indication of pricing and
value

4-5

4150.2

Unless the cost approach is deemed reliable on the above table or considered applicable in the appraiser's judgment, developing this approach is not required for a HUD/FHA appraisal. The reporting requirement of USPAP known as the departure rule does not apply because the appraiser must always use the cost approach to value when considered applicable.

USPAP Requirements

Strict compliance with USPAP standards is required for all FHA appraisals.

Reporting Requirements

> If the cost approach was excluded, report it in the reconciliation and insert the rationale for its exclusion.

A. COST APPROACH METHODOLOGY

1. Land Value Estimate

(4-5)Standard Rule 1-3(b) of USPAP requires appraisers to "recognize that land is appraised as though vacant ... ". The appraiser estimates the value of the land because it is generally considered to be a permanent, non-depreciating asset. There are exceptions to this generally agreed upon premise, but the exceptions will rarely be a factor in FHA/HUD related appraisals. Exceptions may include land with an erosion problem or a polluted property.

2. Excess Land

Excess Land is defined as the area by which the plot exceeds the area of a readily marketable real estate entity. This occurs when the subject lot is considerably larger than typical lots in the neighborhood and the excess is capable of separate use. Generally, the defining characteristic is an excess portion that can be subdivided and marketed as an individual parcel. However, in small communities and outlying areas, appraisers must use different criteria because the market may accept a wide variance in lot sizes. This segment of the market may show wide differences in lot use.

> If the plot contains excess land, delineate and appraise separately the readily marketable real estate entity and the existing or proposed improvements. Describe the excess land but do not appraise it with the primary 1 - 4 family residential building that is subject to a mortgage.

The lender will require that the value of excess land be excluded from the maximum mortgage amount that will be calculated only on a reasonable amount of land and improvements.

3. Sales Comparison Approach For Land Value

In areas with an active real estate market, the sales comparison approach is generally the primary method used. This method allows for collecting, verifying and analyzing recent and similar land sales to be compared with the subject land. Before a conclusion is reached, the comparable land sales are adjusted for differences between the sales and the subject property.

4-6

(4-5)4. Alsite

In areas with a significant lack of comparable sales to develop the sales comparison approach, use the alsite method, which assumes a market-accepted ratio between land value and property value. Although the value estimate from this method is inherently less accurate than that of the sales comparison approach, it is still an acceptable approach.

> The appraiser must document, support and justify the chosen alsite ratio.

5. Extraction

Extraction is a method to deduct the depreciated contribution of the subject's improvement from the total sales price of the property. The remainder represents an estimate of land value. This approach is also inherently less accurate than the sales comparison approach.

> The appraiser must document, support and justify the estimate of the depreciated contribution of the improvements.

B. IMPROVEMENT COST ESTIMATE

Replacement cost is the preferred method for developing the Cost New of the subject improvements. Typically the appraiser uses the Replacement Cost New and quantifies all forms of depreciation, except obsolescence. An alternative is the reproduction cost. HUD does not require a specific method.

The replacement cost of property is estimated to enable the application of the substitution principle. Estimates of the replacement/reproduction cost of property are not estimates of value, although they indicate the possibility that value, in an equivalent amount, may exist. Value depends entirely upon usefulness, not on the cost. Value tends to conform to cost, but this is not to imply that it is always equivalent to cost.

C. TYPICAL REPLACEMENT COST

The replacement cost estimate must reflect the costs typically found in an area - not necessarily the costs of a particular builder or owner. This method is typically preferred to the reproduction cost.

D. UNUSUAL AND NON-TYPICAL COSTS

Some of the items or allowances in the cost estimate may not represent equivalent value in a particular case. An owner might erect a house that would cost more than the houses that generally characterize the neighborhood, but the value of the home to the typical prospective owner in that neighborhood might be less than the replacement cost of the property. The cost of construction also may be in excess of value at a given time. Under some circumstances, a reduction in cost may be in prospect. If construction costs decline, value may also decline if it was originally equal to cost.

4-7

(4-5)E. RECOMMENDED METHODOLOGIES

Generally, the Marshall and Swift square foot method is the most applicable method for estimating the Replacement Cost New. This is a simplified procedure and all appraisers must have the knowledge and skill to apply this methodology. This method may not be used for custom-built homes or unique buildings that require the segregated cost method.

Typical residential construction with which HUD is involved should be rated "fair," "average" or "good" quality. Mass produced, tract-built homes are rated either "fair" or "average," meeting only the minimum construction requirements of lending institutions, mortgage insurance agencies and building codes. Appraisers must review the basic description to determine the correct construction type.

The appraiser will complete the cost approach for each proposed construction case based on the construction type and quality rating of the property as shown in the Marshall and Swift Cost Handbook.

> Reference on the form the pages and revision date where the figures were obtained (usually two pages).

> Include a marketing expense with the replacement cost of improvements and an applicable current multipliers.

F. REMAINING ECONOMIC LIFE

Remaining economic life is an estimate of the remaining time period in which the improvements continue to contribute value to the property (building and improvements). The appraiser must consider the effect, if any, of modifications or renovations on the improvements. This effect is typically expressed in years.

4-6 SALES COMPARISON APPROACH [<TOP>](#)

This is often the most applicable approach in estimating the market value of a single-family one- to four-unit property. This approach relies on:

- o the availability of sales data
- o the volume of transactions
- o the reliability of reporting the transaction data confirmed and developed under this approach

When developing a value indication by the sales comparison approach, always include the assumptions and data from the other approaches on the VC form.

A. DATA REQUIREMENTS

1. Sales Data vs. Comparable Sale

Any transaction in the market is a sale, but not all sales are comparable. Consider the type of transaction and physical characteristics of any sale before considering the sale a comparable.

4-8

(4-6)2. Selection of Comparable Sales for Analysis

Identify the relevant market based on the area in which the property competes and the forces/dynamics that affect the comparable sale properties. This is necessary in relating the sales to the subject.

Consider the amount of time that has elapsed between the sale date and the effective date of the appraisal. Sales data should not exceed six months between the date of the appraisal and the sale date of the comparable, and must not exceed twelve months. An explanation is required for sales dates in excess of six months.

Consider neighborhood and other external factors that influence property value, including real estate and non-real estate influences. For example, when most of the neighborhood's residents are employed by one major employer who is relocating out of the region, the neighborhood may experience a decline in values. The term "non-real estate influenced", however, must never include racial composition.

Consider the quality and quantity of data available for the given assignment. A lack of quality data in a market may force reliance on data in a similar market not necessarily the subject's immediate market area. However, clearly explain and justify any sales from outside the subject's immediate market area

3. Excluded Sales Transactions

When using conventional sales data, the appraiser must be aware of the terms of the sale and adjust the conventional sales price to reflect any unusual terms. For example, there are sales that must be excluded; however, some transactions may be included but adjusted for factors such as below-market financing to provide a cash equivalent sales price.

4. Current Offerings and Listings Analysis

Using these types of sales are discouraged. However, under certain slow market conditions or in markets with rapidly increasing pricing, it may be acceptable include properties offered for sale. Proceed with caution when analyzing and adjusting these offerings. Recognize the inherent negotiability in price between an offering and a consummated sale. Clearly label these comparables as offering, listing, under agreement, etc., but present them as additional comparable data only.

5. Sales in Escrow

If a bona fide transaction is imminent, sales in escrow are considered to be reliable indications of market pricing. Exercise care in identifying the planned date of closure for the sale and any extraneous circumstances that may impede the closing on the projected date.

6. Distressed Sales

Using distressed sales is strongly discouraged because of the special circumstances surrounding these transactions.

4-9

(4-6)7. Resite Sales

Using resite sales from a corporate seller at a below market value is strongly discouraged when the purchaser is the resite company because of the unusual circumstances surrounding these transactions.

Both distressed and resite sales are strongly discouraged because they fail to meet the test of "market value," particularly item No. 1: "The buyer and seller are typically motivated." However, these sales can exceed normal market transaction and affect market values.

8. Confirmation of Sales and Transaction Information

The appraiser must verify all market and comparable information used in the appraisal process and is accountable for any information presented as "fact" used to develop the subject property's value estimate. Verification ensures that the information is accurate and meaningful and provides the appraiser with a firm understanding of market motivations and trends. The goal of the verification process is to ensure that only information that accurately reflects current market conditions and trends is presented and that meaningful conclusions can be reached from this information.

During the verification process, it is necessary for the appraiser to gain an understanding of the motivations surrounding the sale in order to:

- o determine if the sale was arm's length and not distressed
- o understand current market conditions that influence value

Whenever possible, interview a party to the sale to determine the expectations and motivations for purchasing the property. Also, determine whether significant capital expenditures funded by the seller were made shortly after the transaction occurred. If so, determine whether the expenditure needs to be added back into the sale price to reflect the actual conditions surrounding the sale.

The appraiser must verify sale information with the buyer, the seller or one of their representatives (broker, lender, lawyer, etc.) . If the sale cannot be verified with someone who has first-hand knowledge of the transaction, use public records. However, the appraiser must clearly state how the sale was

verified and to what extent. Do not use or rely heavily on any sale that was not verified with an involved party or one of their representatives because concessions have become more common in the market.

B. ADJUSTMENT PROCESS

Other factors that affect the use of comparable sales must be considered. Account for differences between the subject property and each comparable sale. The analysis of sales includes both quantitative and qualitative factors. Remember that the comparable data is adjusted to the subject property. Present these adjustments as dollar amount figures and justify

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The sequence of adjustments are part of the URAR. All FHA appraisers should be familiar with the adjustment grid within the URAR. Adjustments are indicated as a dollar amount. If an adjustment is not necessary, the appraiser can either enter "equal" or \$0 as the adjustment. (4-6)An individual line item adjustment should not exceed +/- 10%. The total adjustments to the comparables should not exceed 15% net and 25% gross of the sales price. If adjustment exceeds a parameter, the appraiser must explain why as part of the appraisal report.

Adjustments to the sales include:

- o Property Rights Conveyed. Refer to the property right appraised section of this chapter. This adjustment is always the first adjustment made to all sales.
- o Sales or Financing Concessions. Account for and adjust for any special sale or financing terms, including sales concessions, non-market financing terms, points, buy downs, closing terms and swaps/exchanges. The most common scenario involves the seller paying points in the form of settlement help to the buyer. To reflect the amount, adjust the sales price of the comparable sale downwards. Typically this amount will not exceed six percent of the sales price for typical transactions.
- o Condition of Sale. Account for the conditions surrounding the sale, including foreclosure/distressed sale, purchased by an adjoining owner, sold between family members, auctioned or any unusual factor that could be reflected in the price paid.
- o Market Conditions. Account for changes that have occurred or are occurring from the date of sale of the comparable transaction to the date of appraisal, including appreciation, new development, availability of financing, loan terms, supply and demand.
- o Property Adjustments. These are required if the difference between the sale and the subject is quantifiable and supported by the market.

Location - Account for location considerations.

Physical Characteristics - Account for physical differences between the comparables and the subject, including condition, view, design/appeal and quality of construction. These are typically entered as individual categories.

Economic Characteristics - Account for economic characteristics between the comparables and the subject, including occupancy, rent level, lease structure or terms.

Property Type	Occupancy	Property Rights
---------------	-----------	-----------------

Appraised

Single-family Owner Fee Simple

Two-to-Four family One unit owner- Leased Fee
occupied, other units
rented

All property types Ground lease Leasehold Estate

4-7 INCOME APPROACH

A. DATA REQUIREMENTS

The appraiser must choose similar market rentals to compare to the subject property. Consider the transaction and physical characteristics of a rental before considering the rental as comparable.

1. Confirmation Of Leases And Transaction Information

The appraiser must verify all comparable information used in the appraisal process. The appraiser is liable and accountable for any information presented as a "fact" in developing the value estimate. This ensures that the information is accurate and meaningful and provides the appraiser with an understanding of market motivations and trends. The goals of the verification process are to ensure:

- o that only the information that accurately reflects current market conditions and trends is presented
- o that meaningful conclusions can be reached from this information

If possible, interview the lessee or the lessor to determine their expectations and motivation for entering into the lease.

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Verify lease information with the lessor/lessee or one of their representatives (broker, agent, lawyer, etc.). If this verification is not possible, clearly state how the lease was verified and to what extent. Do not rely heavily on any lease that was not verified with an involved party or one of their representatives.

2. Adjustment Process

The appraiser must consider other factors that affect the use of comparable leases. The appraiser must account for differences between the subject property and the comparable leases to reconcile the actual lease income. This selection of comparable rentals is significant because the gross income multiplier should not be adjusted, only the comparable rental rate. These adjustments are typically presented as percentage or dollar amount figures. The appraiser must be able to justify and explain the rationale behind all adjustments. The sequence of adjustments should follow the same format as that presented in the sales comparison approach section; however, tailor the categories to the comparable rentals.

3. The Income Projection

In developing the projected gross rent for the subject, the appraiser needs to review and analyze the leases in place on the effective date of the appraisal. Also, consider leases that will commence or terminate around the effective date of the appraisal and the impact, if any, on the property.

The appraiser must take appropriate steps to ensure that the development of the income approach reflects the actual conditions at the subject property. If the subject is new, consider when the property

income will stabilize. Include the justification for any assumption made - lease up time, for example. The income approach is typically based upon the "as stabilized" premises. Support this approach appropriately and clearly state the date when stabilized income will be achieved.

B. DEVELOPMENT OF RATES

The Gross Rent Multiplier (GRM) is the ratio between the sales price of a property and its gross rental income. This method is used to develop indications of a property value. The appraiser must consider the strengths and weaknesses of each comparable rental and develop an estimated multiplier that adequately reflects the income-generating ability of the subject property. This ratio is applied to the estimated income for the subject to conclude an indication of value by the income approach.

4-8 FINAL RECONCILIATION [<TOP>](#)

The final analytical step in the valuation process is to reconcile value indicators. In this step, the appraiser must measure the strengths and weaknesses of each of the applicable approaches performed and develop this data into a single value estimate.

4-9 RECONSIDERATION OF APPRAISED VALUE [<TOP>](#)

The underwriter may request reconsideration of the appraised value when new market data exists that

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may not have been reflected in the appraisal. The lender can select new comparables and request a reappraisal. This request from the lender must be in writing and maintained in the appraiser's work file. The appraiser must decide whether to use the new comparables and perform the reappraisal. If the comparables were available when the initial appraisal was performed, the lender may not offer pay for the reconsideration.

5 REPORTING THE APPRAISAL

5-0 INTRODUCTION [<TOP>](#)

Accurate and thorough appraisal reporting is critical to the accuracy of underwriting for the mortgage insurance process. The need for accuracy is greater for FHA-insured mortgages because buyers tend to have more limited income and lower equity in the properties. This chapter presents the requirements for reporting complete and accurate appraisal information to HUD. An appraisal performed for HUD/ FHA purposes requires that all sections of the Comprehensive Valuation Package (CVP) must be completed. The CVP constitutes the reporting instrument to HUD for FHA-insured mortgages.

5-1 REPORTING THE APPRAISAL [<TOP>](#)

When the appraisal is completed, submit the CVP and all required attachments - maps, photographs, sketches, etc. to the lender. Also, for new and proposed construction, submit the plans, specifications, construction documents and the completed builder's certification (Form [HUD-92541](#)). Submit the original package and a complete copy to the lender.

The CVP is required for reporting the appraisal findings, analyses and conclusions about the observed conditions of the property. A complete HUD appraisal package includes three parts: the Uniform Residential Appraisal Report (URAR), the Valuation Conditions Form and the Homebuyer Summary. These are described below.

A. PART 1: UNIFORM RESIDENTIAL APPRAISAL REPORT (URAR) The URAR is the standard appraisal reporting form available through all lenders. The following are required in reporting appraisal findings on the URAR:

- o All information must be reported consistently with the HUD protocol in Appendix D of this Handbook.
- o All findings must be reported consistent with Standard 2 of USPAP for a summary report.
- o All boxes must be filled in and relevant factual data included, unless specifically noted.
- o All calculations must be verified.
- o Consistency between the sections must be verified.

1. Departure from HUD Requirements

HUD requirements are presented in this Handbook. Any departure from these requirements must be explained in the URAR or as an attachment to the appraisal. Present the reasoning, the result of such departure and any additional limitations to the use of the appraisal or the reported value as a result of this departure. Departure from USPAP is not permitted for an appraisal submitted to HUD.

2. Certification

Within the URAR, the appraiser must certify that the reported value is an unbiased, independent valuation of the subject property. This certification is consistent with that required by USPAP. Of particular importance is the certification that the appraisal is not based on any of the following:

- o a requested minimum value
- o a specific value
- o the approval of a loan as indicated

If the appraiser is subject to additional certifications in developing and reporting the appraisal, include them in the URAR report. Such additional certifications may be the result of state certification requirements in certain jurisdictions or of relationships with professional appraisal and real estate organizations.

The assigned appraiser is required to sign the report making him/her fully and wholly accountable for the information presented on the URAR and in developing the appraisal findings. If any party provided significant professional assistance, name this party on the certification and note the contribution.

3. Statement of Limiting Conditions

For each appraisal, the URAR includes the standard limiting conditions. The appraiser must confirm these limiting conditions and strike any that do not apply.

Also, if there are additional limiting conditions, clearly state them. If the limiting conditions differ or are contrary to the limiting conditions stated on the URAR, fully disclose those limiting conditions and make them known in the value estimate. Cite any value influencing limiting conditions with the report of the estimate of market value.

The repair conditions reported in the VC segment of the report constitute a limiting condition for the development of the appraisal because HUD appraisals estimate value "as-repaired." The reported estimate assumes that the noted deficiencies have been corrected. It is, therefore, important that the appraiser certify to testing specific systems and examining all areas of the house to note the deficiencies.

B. PART 2: VALUATION CONDITIONS FORM

The Valuation Conditions (VC) Form specifically addresses physical conditions of the property- that may render the property uninhabitable or cause health and safety concerns. Note the conditions observed during the walk-through on the VC form as of the date of appraisal. A home inspection. Is not required to

complete the VC. The VC form is divided into Site and Property Analysis as well as other property related information.

- o VC-1 identifies the site hazards and nuisances that may render a location ineligible for FHA insurance.
- o VC-2 through VC-11 identify the basic structural and mechanical components of the property and are the bases for determining if the property is habitable and eligible for FHA-insured financing.

oVC-12 and VC-13 provide further information on the property.

oThe addenda include a provision for current market assessed value and a summary of estimated repair costs.

Each section must be completed entirely, based on the instructions in the protocol in Appendix D of this Handbook.

The appraiser must observe the property's components, test certain basic operations, view areas of the home that may include adverse conditions and report on readily observed adverse conditions. In all instances, the observations are as of the effective date of value, as identified in the VC and appraisal segments.

oFor each item in VC-1, a "YES" renders the property ineligible for FHA mortgage insurance.

- o For each specific item in VC-2 through VC-11, "YES" indicates a limiting condition on the appraisal subject to the repair of the deficiency or further inspection.

- o For each specific item in VC-2 through VC-11, "NO" indicates that the appraiser did not observe a deficient condition.

The appraiser may encounter a negative physical condition that does not require repair or inspection. In this instance the appraisal is based upon the existing condition.

"NO" is not a substitute for a home inspection by a qualified professional home inspector, but merely indicates that the appraiser did not observe the condition during the property inspection for valuation purposes.

For both "YES" and "NO" responses, exercise care and judgment in reporting the extent and the magnitude of the observed condition. The mere presence of an item may not require an inspection or repair. Likewise, depending on the condition observed, a minor observation may prove to be significant to the soundness of the property. The property analysis relies heavily on the appraiser's judgment. It is important to note all considerations as comments for each Valuation Condition.

For detailed instruction regarding the Valuation Conditions Form, please see the protocol in Appendix D of this Handbook.

Appraisals performed for HUD/FHA are not intended to protect the buyer: they protect HUD. Many homebuyers mistakenly believe that a HUD appraisal and subsequent inspection is a guarantee that the property is free from defects when, in fact, the appraisal only establishes the value of the property for mortgage insurance purposes. Buyers need to secure their own home inspection through the services of a qualified inspector and satisfy themselves about the condition of the property. If available in a timely manner, home inspection reports should be sent to the appraiser; this affords the appraiser the opportunity to make valuation adjustments as needed.

C. PART 1: HOMEBUYER SUMMARY

This part summarizes required repairs from the appraiser's observation of the physical condition. The Homebuyer Summary intends to protect the homebuyer by informing him/her of any material conditions that typically make the property ineligible for FHA mortgage insurance.

> If any of the VC's are marked "YES" in the VC form, the appraiser must denote it in the appropriate box of the Homebuyer Summary and explain, in detail, the nature of the problem.

The summary also includes a notice to the homebuyer regarding the value of securing a home inspection, by a qualified inspector.

5-2 ACCESS TO FORMS [<TOP>](#)

The Homebuyer Summary and Valuation Conditions Form are available electronically from the HUD Internet website: <http://www.hudclips.org>.

5-3 RECORD KEEPING [<TOP>](#)

HUD reserves the right to request and review the appraiser's work files supporting an FHA-insured mortgage at any time and without prior notice. Appraisers on the FHA Register must comply with the record-keeping and inspection requirements as a condition of performing appraisals for FHA-insured mortgages.

A. MINIMUM TERM FOR RECORD KEEPING

The appraiser is required to keep supporting documentation in addition to a copy of the CVP. These files must be maintained for five years after the date of preparation or at least two years after final disposition of any judicial proceeding in which testimony was given, whichever expires last. This is consistent with the Record Keeping Rule of USPAP.

B. DOCUMENTATION FILE REQUIREMENTS

Although there is no prescribed file format or content, the appraiser's work files must include information to support all findings, observations and conclusions supporting the value estimate. The files must indicate the rationale for adjustments and the market data analyzed in the development of the appraisal report. The files must include documentation of the acceptance of the assignment and historical and factual information, such as photographs and maps. A sample documentation file index is provided below. This is not a comprehensive list of information.

C. SAMPLE DOCUMENTATION FILE

Section	Supporting Data
---------	-----------------

Acceptance of assignment	File memorandum
--------------------------	-----------------

Property Description	Legal description
----------------------	-------------------

	Photographs
--	-------------

	Floor plans
--	-------------

	Tax map and information
--	-------------------------

	Field notes from inspection
--	-----------------------------

	Listing information
--	---------------------

	Offer to purchase
--	-------------------

Neighborhood	
--------------	--

Notes from the field visit
 Photographs
 Demographic data

Cost Approach Relevant Marshall Swift
 Valuation
 (if applicable) information
 Calculations performed
 Land Sales detail

Sales Comparison Approach Sale details and photographs
 Transaction information
 Derivation of adjustments
 Interview notes

income approach Market rent comparable
 information
 (if applicable) Cap rate justification
 Historical financial
 statements

VC Conditions Noted Photograph of condition
 Field notes
 Support for any assumed
 repairs
 Calculation of cost to
 repair a VC
 condition

Additional Information Surveys
 Relevant market data
 Other sources of data

6 APPRAISAL AND APPRAISER MONITORING

6-0 INTRODUCTION [<TOP>](#)

The review process is a critical quality control and performance monitoring mechanism for HUD. FHA will monitor appraisals and appraisers using statistical analysis and field reviews. Through analysis of performance measures, FHA will identify candidates for field reviews. By performing statistical analysis as well as field reviews, HUD maintains the capability to broadly track its portfolio and investigate it in greater depth.

6-1 MONITORING AND STATISTICAL ANALYSIS [<TOP>](#)

The Real Estate Assessment Center (REAC) will conduct statistical analysis to track the performance of appraisers and properties and to identify problematic appraisals for review. If the review and subsequent analysis indicate behavior that is out of compliance with FHA guidelines, FHA may take enforcement action. The performance categories below will guide the monitoring and enforcement efforts.

6-2 PERFORMANCE CATEGORIES [<TOP>](#)

The following performance categories allow FHA to monitor each aspect of the appraiser's performance. The table below lists examples of performance measures for each category.

Performance Category	Performance Measure
Appraisal Process	Transaction quality Proof of analysis Relevance of data
Appraisal Reporting	Completeness Mathematical Accuracy
Valuation Conditions	Identified repairs
Maintenance of Professional Standards	Maintenance of state licensure Disciplinary actions
Field reviews	Supported findings Required record keeping Responsiveness to field review

HUD expects a high level of professionalism, customer service, technical expertise and record keeping from appraisers. The above measures demonstrate HUD's focus on:

- o complete, justifiable and accurate appraisals
- o qualified and competent appraisers
- o professionalism
- o accuracy

6-3 APPRAISAL REVIEW PROCESS

The oversight process includes statistical analysis of appraisals and field reviews. The reviews will be used to determine the reliability of the appraisal supporting FHA financing as well as the performance of the appraiser. To gauge an appraiser's performance, REAC will review a sample of appraisals performed for FHA over a specified time period and/or a specified number of appraisals performed.

7 REGULATORY ENVIRONMENT, ENFORCEMENT AND SANCTIONS

7-0 INTRODUCTION [<TOP>](#)

This chapter describes the regulatory environment in which FHA single-family appraisals are performed and the enforcement and sanctions that are available to HUD and other government entities in that environment. Appraisers are subject to:

- o federal laws and regulations
- o state licensing laws and regulations
- o the requirements associated with any professional appraisal designations

This chapter enumerates these requirements and explains their connection to HUD's enforcement and sanctions processes.

7-1 REGULATORY ENVIRONMENT [<TOP>](#)

A. FINANCIAL INSTITUTIONS REFORM, RECOVERY, ENFORCEMENT ACT OF 1989 ("FIRREA")

FIRREA instituted reform and regulation of real estate appraising through Title XI, the Real Estate Appraisal Reform Amendments. The amendments achieved the following:

- o established the Appraisal Foundation, comprising the Appraiser Qualifications Board (AQB) and the Appraisal Standards Board (ASB):
 - The AQB determines the minimum education, examination and experience requirements for state-certified and state-licensed appraisers.
 - The ASB promulgates the Uniformed Standards of Professional Appraisal Practice (USPAP).
- o required that only a state-certified or state-licensed appraiser may perform appraisals for federally related transactions
- o established that an appraiser trainee can sign an appraisal if a state-certified or state-licensed appraiser closely supervises the trainee, signs the appraisal report and inspects the property
- o established the definition of a "state-certified real estate appraiser" as someone who has satisfied the requirements in a state or territory whose criteria for certification meets the minimum criteria for certification by the Appraiser Qualification Board of the Appraisal Foundation
- o established the state agencies to license, certify and supervise appraisers

All appraisers performing services for FHA-insured mortgages must comply with USPAP in developing and reporting appraisals. Key aspects of USPAP include:

Standard	Citation
Ethics Rule	Conduct management, confidentiality and recordkeeping
Competency Rule	Full responsibility of appraiser to have the knowledge and experience to complete the assignment competently or disclose any discrepancy before acceptance and take all necessary steps to correct
Departure Rule 1	Permits limited departures from acceptable portions of USPAP reducing the reliability of the valuation

Jurisdictional Exception Individual portions of USPAP can be superseded by law or public policy

Standard 1 In developing a real estate appraisal, an appraiser must be aware of, understand and correctly employ the recognized methods and techniques that are necessary to produce a credible appraisal

Standard 2 In reporting the results of a real estate property appraisal, an appraiser must communicate each analysis, opinion and conclusion in a manner that is not misleading

In compliance with USPAP, unacceptable practices include:

- o estimating a specified (predetermined) value determined by the lender
- o fee splitting between lenders and appraisers
- o other practices that do not comply with HUD's standards

Also, USPAP contains statements on appraisal standards that have the full weight of USPAP. These statements were issued to clarify the existing standards. The ASB has also issued advisory opinions that currently do not establish new standards but offer advice on complex technical issues.

B. FEDERAL FINANCIAL INSTITUTION REGULATORY AGENCIES

The Federal Financial Institution Regulatory Agencies issued a final rule on appraisals in June 1994. In general, the threshold for requiring state-certified appraisers to perform appraisals on federally related transactions was raised to Two Hundred Fifty Thousand Dollars (\$250,000).

1/ FHA does not permit departure from USPAP.

D. FALSE, FICTITIOUS OR FRAUDULENT CLAIMS ON HUD (18 U.S.C. 1010, CRIMINAL PENALTIES AND FINES 1012)-

(7-1) These statutes prescribe criminal penalties for any person who knowingly files a false claim on or against HUD.

E. FEDERAL FALSE CLAIMS ACT (31 U.S.C. 3729) - CIVIL FRAUD

The Federal False Claims Act defines the civil monetary damages imposed on any person who knowingly presents or files a false claim that was paid or approved by the United States Government.

F. 24 CFR PART 28 - PROGRAM FRAUD CIVIL REMEDIES ACT (PFCRA)

These regulations define the administrative procedures for imposing civil penalties and assessments by HUD officials against any person who makes or submits false claims or false statements to Federal authorities or to their agents.

G. 24 CFR PART 30 - CIVIL MONEY PENALTIES

These regulations define the money penalties that HUD may levy for submission of a false certification by another person - for example, an appraiser who makes a false certification at the bottom of the USPAP appraisal form about the truth/ correctness of the appraisal data.

H. 24 CFR PART 24 - ADMINISTRATIVE SANCTIONS

These regulations define the administrative sanctions available to HUD officials for any person determined to have violated HUD regulations and policies.

I. STATE LAWS AND PROFESSIONAL ORGANIZATIONS

The appraiser must adhere to all state and local laws relating to appraisal, licensing and certification requirements. Also, as a voluntary member of an appraiser's professional organization, the FHA appraiser should adhere to that organization's guidelines on appraiser conduct. However, HUD has no enforcement powers in private organizations.

1. State Certifications

Appraisers on the FHA Register must be licensed, certified-residential or certified-general appraisers. To perform appraisals for FHA, appraisers must maintain and be able to prove that they are so certified. While some states do not require an appraiser to be certified, they provide a licensing program so appraisers can meet federal guidelines.

Appraisers must comply with the practices of their state unless the requirements of the state contradict those of the federal government; federal requirements preempt any and all state requirements.

The appraiser must report to HUD any action or pending action that relates to appraisal reports prepared by the appraiser two years subsequent to the date on which the action was initiated. After disposition of any disciplinary action or adjudication of the action, the appraiser must provide HUD with the documentation and official findings within 14 days.

2. Professional Organizations

The appraiser may be a member or hold designations in professional organizations. Such involvement is encouraged, but not required. If the appraiser is a member, candidate or associate of any organization, the appraiser must report any adjudicated actions resulting in the suspension of the appraiser to HUD within 14 days of such action. On disposition of the action or adjudication of the action, the appraiser must provide HUD with documentation and official findings. HUD reserves the right to suspend any appraiser found guilty of professional misconduct as adjudicated by the professional organization.

7-2 ENFORCEMENT [<TOP>](#)

FHA intends to hold appraisers accountable for valuations that are inconsistent with USPAP or this Handbook. The Valuation Conditions Form must accurately reflect any site, structural or mechanical deficiencies. FHA recognizes that most appraisals are properly valued and do not indicate improper action. Accordingly, HUD emphasizes quality assurance, but will take enforcement action when necessary.

A. STATE CERTIFICATION BOARDS

HUD will enforce actions against appraisers through existing state certification and licensing boards. HUD is required by law to refer appraisers to these boards if HUD considers the actions to be of such magnitude or frequency as to warrant such referral.

B. PROFESSIONAL ORGANIZATIONS

HUD will cooperate with and refer cases to the enforcement arms of all applicable professional organizations.

7-3 APPLICABLE REMEDIES AND SANCTIONS [<TOP>](#)

FHA will review appraiser and appraisal performance data. In making any determination, the following will be considered:

- the seriousness and extent of the non-compliant action
- the degree to which the appraiser is responsible for that action
- the frequency of the action(s)

- any mitigating factors

HUD will impose sanctions on four tiers:

1. Notice of Appraisal Deficiencies and Remedial Education
 2. Administrative Sanctions
 3. Civil Sanctions
 4. Criminal Sanctions
- o the frequency of the action(s)
 - o any mitigating factors

HUD will impose sanctions on four tiers:

1. Notice of Appraisal Deficiencies and Remedial Education
2. Administrative Sanctions
3. Civil Sanctions
4. Criminal Sanctions

(7-3)

HUD expects that all appraisers performing appraisals for FHA are knowledgeable of HUD's policies and procedures. If, however, minor appraisal errors indicate lack of knowledge, HUD may require remedial education and training. For offenses arising from unethical behavior or for repeated offenses, HUD will apply more serious sanctions. All sanctions will be reported to the state regulatory agencies.

The following sections generally define the actions taken under each tier. Generally, these penalties will be expunged after three years. A table providing examples of offenses and possible sanctions is included at the end of this chapter.

A. NOTICE OF APPRAISAL DEFICIENCIES AND REMEDIAL EDUCATION

Education and training directives will be managed internally by HUD. If the evidence indicates that the appraisal deficiency is a matter of training, then the appraiser must undergo professional training. HUD will notify the appraiser and inform the appraiser of:

- o the appraisal's deficiencies
- o the findings that support the recommended training
- o the recommended training
- o the appraiser's right to refute the findings of the notice

The appraiser must appeal within 20 days from receipt of the notice if he or she disagrees with the findings. If the findings are adequately refuted, no action will be taken against the appraiser and the circumstances surrounding that particular incident will be noted in the appraiser's file. However, if the findings hold, the appraiser must comply with HUD's requirements for improved performance, including the type of training required and the time-frame for completion. This action will go on record in the appraiser's file.

B. ADMINISTRATIVE SANCTIONS

Administrative sanctions will be managed internally by HUD and consist primarily of removal from the FHA Register for a specified time. Removal from the FHA Register can be imposed for

noncompliance with FHA policies and requirements on appraisals. HUD will consider the seriousness of the appraiser's acts or omissions and any mitigating factors.

HUD/FHA will notify the appraiser of the alleged violation and pending sanction in writing. If the appraiser believes that removal from the FHA Register is unwarranted, the appraiser must appeal in writing within 20 days and may arrange a meeting or conference call with FHA at a mutually acceptable time. If there is evidence and documentation of unacceptable performance, appraisers will be removed from the FHA Register at HUD/FHA's sole discretion.

Upon any legally effected removal, HUD will notify the state licensing or certification agency in writing that such appraiser has been removed from the FHA Register. HUD will provide the state agency with:

- o the state license or certification number of the appraiser
- o the reason for removal
- o copy of the original appraisals
- o copy of the review report

In addition to removal from the FHA Register, administrative sanctions include sanctions under 24 CFR Part 24, Debarment, Suspension and Limited Denials of Participation (LDP) from HUD and government-wide programs.

C. CIVIL SANCTIONS

HUD will pursue civil sanctions by initiating an investigation of the alleged non-compliant action. A report containing the findings and conclusions of the investigation will be submitted to HUD's Office of the General Counsel or The Enforcement Center. If the Office of General Counsel or The Enforcement Center determines that the investigation report supports an action, the respective office will submit a written request to the Department of justice for approval to pursue civil sanctions. Civil sanctions are pursuant to Part 24 CFR 28-PFCRA and are described in Chapter 7-1.

D. CRIMINAL

If the non-compliant action is so egregious as to violate criminal law, HUD's Office of General Counsel or the Inspector General will refer the case to the Attorney General at the U.S. Department of Justice.

E. PERFORMANCE VIOLATIONS AND LEVEL OF SANCTION

The following chart outlines the type of sanction to be levied by the type of performance violation. For example, the appraiser may receive a Notice of Appraisal Deficiencies for a square footage error of less than 10% as a first offense. However, repeatedly making this mistake will result in removal from the FHA Register. If the violation is repeated so that it constitutes a pattern of misconduct, it may be considered gross negligence. The offense could also be considered gross negligence if the offense is so obvious that it could not have reasonably been the result of simple error. In this example, the sanction for gross negligence includes removal from the FHA Register and may include a Limited Denial of Participation or Debarment.

7-6

Violations of intent include knowing and willful noncompliance with FHA/HUD requirements, as well as extensive or repeated intentional violations. In this example, the appraiser is guilty of intentional misconduct if he or she chooses to disregard the requirement. Sanctions at this level may include

debarment and civil and/or criminal penalties. The Department may impose civil money penalties or other sanctions for minor violations if the Department determines that circumstances warrant.

7-6a

7-4 PERFORMANCE AND SANCTION MATRIX [<TOP>](#)

This is not an exhaustive list of violations. It is meant to highlight the ramifications for non-compliant performance. This does not preclude the Department from pursuing other remedies or related sanction(s); the Department reserves the right to take any such other actions and remedies in accordance with applicable law. Time frames are included for illustration and can vary depending on the degree of violation.

[PAGES 7-7 THRU 7-12 WHICH INCLUDE THE MATRIX IS IN THIS PDF FILE.](#)

8 MANUFACTURED HOMES

8-0 DEFINITION

A Manufactured Home is a structure that is transportable in one or more sections. In traveling mode, the home is eight feet or more in width and forty feet or more in length. A Manufactured Home is designed and constructed to the Federal Manufactured Construction and Safety Standards and is so labeled. When erected on site, the home is:

- at least 400 square feet
- built and remains on a permanent chassis
- designed to be used as a dwelling with a permanent foundation built to FHA criteria

The structure must be designed for occupancy as a principal residence by a single family.

8-1 PROPERTY STANDARDS FOR TITLE II MORTGAGE INSURANCE [<TOP>](#)

The appraiser should be aware of the primary standards in this Handbook to prepare an appraisal for underwriting purposes. These are the key standards:

- o The site must be served by permanent water and sewer facilities approved by the local municipal authority, if available at the site.
- o An all-weather roadway must serve the site.
- o The entire property must be taxed as real estate.
- o The towing hitch or running gear must have been removed. The towing hitch or running gear must also have been removed for properties greater than one year.
- o No part of the finished grade level under the home is below the 100-year flood level.
- o Structural integrity must have been maintained during transportation and sufficient anchoring, support and stability must be evident.

All manufactured homes must have an affixed HUD seals(s) located on the outside of the home. If the home is a multi-wide unit, each unit must have a seal. These seals will be numbered sequentially. If the tags are missing from the property, the appraiser must recommend rejection of the property and notify the lender.

In some states, a manufactured home may not be resold without a seal and homes without a HUD seal must be rejected. In states where resale without a HUD seal is permissible, a manufacturer's certification must be obtained verifying the date of the sale.

The certification label/seal shall be located at the tall-light end of each transportable section of the manufactured home approximately one foot up from the floor and one foot in from the road side, or as near that location on a permanent part of the exterior of the manufactured home unit as practicable. The roadside is the right side of the manufactured home when one views the manufactured home from the tow bar end of the manufactured home. (24 CFR 3280.11 (d))

- o The home must be erected on a permanent foundation in compliance with the Permanent Foundation Guide for Manufactured Housing. All proposed or newly constructed manufactured homes must meet the standards set forth in the Permanent Foundation Guide. A licensed professional engineer's seal and signature (certification) is required to indicate compliance with the Foundation Guide. The lender should furnish the appraiser with a design engineer's inspection of the foundation prior to the appraisal.
- o Existing manufactured homes in place over one year are to be inspected by the appraiser for evidence of permanent concrete footings with tie-downs anchored to the footings.
- o The appraiser must inspect the crawl space for the following: poured in place concrete footings placed below the frost line supporting the manufactured home carriage frame, tie-downs anchored to the footings, protection from the elements and enclosed with material impervious to rot and infestation and perimeter foundation-type construction with footings extended below the frost line. The appraiser must require an engineering inspection if there is evidence of structural defects or other problems relating to the foundation or set-up of the home.
- o The manufactured home must not have been constructed before June 15, 1976. The unit must have been built to the manufactured housing construction safety standards as evidenced by having a small, red metallic label attached to it. Any unit without this label is unacceptable. If it has been removed, it cannot be reattached to make it acceptable for FHA insurance.
- o New, never occupied homes that are transported directly from the manufacturer or directly from the dealership to the site are eligible for insurance. For an existing manufactured home, evidence must be provided to verify that the home was assembled in accordance with the above paragraphs and has not been moved from its initial installation site.
- o Additions or structural modifications may put the home at risk if changes were not performed in accordance with the HUD Manufactured Home Construction Safety and Standards. If the appraiser observes changes to the original home, an inspection by the State Administrative agency, which inspects manufactured homes for compliance, must be required. If there is no agency willing or able to inspect existing homes for compliance to the Manufactured Home Construction and Safety Standards, the manufactured home is unacceptable and should be rejected.

8-2 PROPERTY DESCRIPTION [<TOP>](#)

Measurement is based on the overall length, including living areas and other projections that are at least seven feet in height. Length and width should not include bay windows, roof overhangs, drawbars, couplings or hitches. Each manufactured home must have a data plate with the name of the manufacturer and the construction date.

8-3 APPRAISER QUALIFICATIONS FOR MANUFACTURED HOMES CLASSIFIED

AS PERSONAL PROPERTY

For all appraisals of manufactured homes classified as personal property, lenders must engage independent fee appraisers who have successfully completed a specialized course in manufactured home valuation based on the N.A.D.A. appraisal system. These independent fee appraisers must be knowledgeable in the business of manufactured home retail sales. Appraisal services may be obtained from an appraisal company if their appraisers meet these qualifications.

8-4 MANUFACTURED HOME LOT APPRAISALS [<TOP>](#)

A manufactured home lot appraisal may be requested to estimate land value in determining the maximum loan proceeds allowable for a manufactured home lot loan or a combination loan (home and lot). A lot appraisal may also be requested to establish value for claim purposes on a foreclosed lot or manufactured home-and-lot combination.

When appraising manufactured housing, appraisers should use normal single-family residential appraisal techniques (see Chapter 4 of this Handbook). Give special consideration to other manufactured homes as comparables in appraising manufactured homes. This will provide a comparable value indication from which to make justifiable conclusions. Therefore, make all efforts to obtain such comparables even though their distance from the subject may be greater than normally desirable.

If there are no manufactured housing sales within a reasonable distance from the subject property, use conventionally built homes. Make the appropriate and justifiable adjustments for size, site, construction materials, quality, etc. As a point of reference, sales data for manufactured homes can usually be found in local transaction records.

A. MANUFACTURED HOME LOT SITES

A manufactured home lot may consist of:

- o an interest in a manufactured home condominium project (including an undivided interest in the common areas)
- OR
- o a share in a cooperative association that owns and operates a manufactured home park

The lot may be located within Native American Trust Lands if the borrower owns or leases the lot.

B. HOW TO PERFORM A MANUFACTURED HOME LOT APPRAISAL

In addition to the single-family residential appraisal techniques (see Chapter 4 of this Handbook), the appraiser must take the following steps when performing manufactured home lot appraisals:

- o The appraiser must obtain Form HUD-92802, Application and Request for Manufactured Home Lot and/or Site Preparation and the FHA case number from the mortgagee.
- o The appraiser must receive a copy of the design engineer's inspection of the foundation from the mortgagee.
- o The appraiser must estimate the value of the lot by comparison with other lots offering similar amenities.
- o When the appraisal is complete, the appraiser must send the original and one copy of the appraisal report, a photograph of the lot and one photograph of each comparable to the lender for review.

- o The appraiser must receive a copy of the design engineer's inspection of the foundation from the mortgagee.
- o The appraiser must estimate the value of the lot by comparison with other lots offering similar amenities.
- o When the appraisal is complete, the appraiser must send the original and one copy of the appraisal report, a photograph of the lot and one photograph of each comparable to the lender for review.

9 PLANNED UNIT DEVELOPMENTS AND CONDOMINIUMS

9-0 PLANNED UNIT DEVELOPMENT (PUD) [<TOP>](#)

A PUD is defined as a mixed-use residential development of single-family dwellings in conjunction with rental, condominium, cooperative or town house properties. A residential development should be processed as a PUD if it has these minimum characteristics:

- o a homeowner association that holds either title in fee or a lease of prescribed length on the common area
- o mandatory membership of all unit owners (or units) in the association
- o the right of all unit owners to participate by vote in the operation of the association
- o lien supported assessment of the members to meet the association's budgeted operating costs (special assessments may be handled differently)

To be eligible for insurance endorsement, PUDs must be approved by HUD. The lender is responsible for obtaining a case number from HUD to ensure that the PUD is already approved. The appraiser should note whether there is a case number.

A. APPROACH TO VALUE

The approach to value for a PUD is the same as the approach to value for other types of developments (see Chapter 4 of this Handbook). Frequently, however, no valid comparisons are available that estimate market value. In these instances, appraisers should use the replacement cost estimate in valuation. Estimate the replacement cost of improvements, miscellaneous allowable costs and marketing expenses the same as any Section 203(b) case. If properties in similar developments in the area have been sold, then direct comparisons are possible and the Comparative Approach would be valid and should be used.

B. ESTIMATE OF MARKET PRICE

Estimating the market price of an equivalent site requires consideration of these factors not usually encountered in ordinary appraisals:

- o Consider the size of individual sites when approaching the use of common areas and recreational facilities.
- o If there are similar developments in the neighborhood, consider a comparison of common areas, including recreational amenities.
- o If there are no similar developments, place more emphasis on the cost to produce a similar site with similar facilities and benefits.

- o Distribute the pro rata supportable cost to maintain the common improvements, facilities and land owned by the homeowner's association to each site in the development (subdivision) and add it to the estimated value.
- o To reflect additional amenities to the common areas, include an estimate on the Marshall and Swift Form 1007. On line 32, cross out "landscaping cost" and enter additional amenities".
- o Consider maintenance charges regarding cluster arrangements. For example, note whether the advantages of cluster arrangements are negated by high maintenance charges.
- o Before performing the assignment, check with the lender to ascertain that the project is on an approved list maintained by the Home Ownership Center (HOC). Check the URAR item indicating that the property is within a PUD project.

9-1 CONDOMINIUMS [<TOP>](#)

A condominium is a form of fee ownership or long-term leasehold of separate units or portions of multiunit buildings that provides for formal filing and recording of a divided interest in real property. In contrast to a PUD, a joint share in ownership of the common area is part of the mortgaged property, and therefore, constitutes a measure of the security backing the mortgage loan. FHA's interest is therefore more immediate and direct with respect to the common areas of condominiums than those of PUDS.

Before performing the assignment, the appraiser must check with the lender to ascertain that the project is on an approved list maintained by the HOC or by a DE underwriter who has performed a spot condominium approval. The appraiser must check the URAR item indicating that the property is within a condominium project, and therefore, eligible for FHA endorsement.

A. DEFINITIONS

Mortgage: a lien covering a fee interest or eligible leasehold interest in a one-family unit in a project, together with an undivided interest in the common areas and facilities serving the project.

Family Unit: a one-family unit including the undivided interest in the common areas and facilities and such restricted common areas and facilities as may be designated.

Common Areas and Facilities: areas that are for the use and enjoyment of the owners of family units located in the project, including the land, roof, main walls, elevators, staircases, lobbies, halls, parking spaces and community and commercial facilities.

Restricted or Limited Common Areas and Facilities: areas and facilities restricted for use by a particular family unit or number of family units.

Project: a structure or structures containing four or more units.

Conversion: the creation of the condominium as of the date when all of the documents necessary to create a condominium regime have been recorded under state and/or local law.

Bona fide Tenants' Organization: an association formed by the tenants to promote their interest in a particular project whose membership is open to each tenant and whose requirements apply equally to each tenant.

Condominium Fee (Assessment): the apportionment of common expenses that are to be charged to a unit owner in a manner to be determined in the declaration or by-laws. The charge may include costs for utilities on individual units and on common use buildings, security requirements, salaries for employees of the association and repairs to common facilities.

(9-1)

B. APPROACH TO VALUE

The approach to value for a single unit in a condominium project is similar to that for other home mortgage programs. As in other home mortgage appraisals, value indications from the Sales Comparison and Income Capitalization Approaches are developed and considered (see Chapter 4 of this Handbook). The cost approach can not be performed for a condominium unit.

1. Sales Comparison Approach

The appraiser should obtain sales data from any other units in the project and from other competitive condominium projects, including adjustments because of site factors, such as:

- o differences in views from the unit
- o proximity to recreation areas (swimming pools, clubhouses, tennis courts, etc.)
- o proximity to odors and the nuisance of incinerators proximity to garbage chutes or refuse areas proximity to noisy pumps or boiler rooms

Adjustments must also be made for the following:

- o differences in physical improvements within the dwelling that have been made by the owner-occupant
- o differences in preferences of purchasers between upper and lower floors and all other site factors

APPENDIX A: VALUATION OF REAL ESTATE OWNED PROPERTIES

A-1 REAL ESTATE OWNED (REO) [<TOP>](#)

FHA's Real Estate Owned (REO) properties are a result of paying a claim to a lending institution and the lender transferring ownership of the property to HUD. Typically, title to REO properties is held by the lender prior to transfer to HUD due to the borrower's default on the mortgage.

The appraisal process is HUD's primary tool for determining the listing price of FHA REO properties. FHA appraisers provide preliminary verification that FHA's Minimum Property Requirements (MPR) for existing housing and Minimum Property Standards (MPS) for new construction have been met for properties evaluated as *insurable* or *insurable with repair escrow* prior to being listed for sale.

A. Appraiser Requirements for REO properties

Requirements for appraisers who perform REO appraisals are the same as for appraisers of any other property type. An appraiser of REO property must be state licensed or certified in the state in which the property is located and listed on the FHA Appraiser Roster.

B. Appraisal Requirements for REO properties

Per Mortgagee Letter 2005-34 and Revised Appendix D to Handbook, the appraiser must report the appraisal on the applicable property specific revised Fannie Mae appraisal reporting form.

Under "Assignment Type" in the Subject Section of the applicable property specific appraisal reporting form, the appraiser is to mark the box labeled "other" and indicate that the property being appraised is a HUD Real Estate Owned (REO) property. If the appraiser is performing a land only appraisal which is not reported on a Fannie Mae appraisal reporting form, the appraisal must note, in bold font, that the property being appraised is a REO property in the section of the report providing information on the subject property.

The guidance provided in Appendix D, Appraisal Protocol, to Handbook 4150.2, applies equally to REO properties, unless otherwise indicated in the guidance presented in this appendix.

REO properties are to be appraised "as-is". The Dictionary of Real Estate Appraisal, Fourth Edition, Appraisal Institute defines an "as-is" value as follows:

"The value of specific ownership rights to an identified parcel of real estate as of the effective date of the appraisal; relates to what physically exists and is legally permissible and excludes all assumptions concerning hypothetical market conditions or possible rezoning."

The "as-is" value is the market value for the property as it exists on the effective date of the appraisal.

The appraisal report shall consist of the applicable property specific appraisal reporting form, all required exhibits and a copy of the Property Condition Report (PCR). M&M contractors are required to complete a PCR prior to ordering an appraisal of a REO property. The PCR contains information specific to the condition and functionality of the property. Prior to performing a site visit of a REO property, the appraiser must be provided a copy of the PCR by the M&M contractor.

The appraiser must coordinate a specific time for a full site inspection of the property with the property manager. Generally, a REO property is secured with the utilities de-activated. The appraiser should request that the M&M contractor make sure the utilities, including the mechanical systems, are activated at the time the appraiser makes the property inspection. If an appraisal is completed without the utilities turned on and/or the mechanical systems functioning, the appraiser must note this in the appraisal report and must rely upon the information provided by the M&M contractor in its Property Condition Report (PCR); reference the PCR in the applicable sections of the appraisal report (condition of property or physical deficiencies) as well as append a copy of the PCR to the appraisal report.

There will be occasions when the appraisal of a REO property may involve extraordinary conditions which dictate additional research, documentation and due diligence on the part of the appraiser. For example, a single family property that features a second unit which is an illegal use due to non-compliance with the local zoning code/regulations, the appraiser must provide an estimate of the costs necessary to bring the property into compliance. The appraiser should provide documentation for such conclusions, such as a copy of the pertinent portion of the zoning code and a summary of any discussions with local authorities. When appraising a REO property that is impacted by complex or extraordinary circumstances, the appraiser must contact the M&M Contractor for guidance and clarification before completing the appraisal. The M&M Contractor may, in turn and in cases of problematic appraisals, seek additional guidance from the Homeownership Center that has jurisdiction over the locality where the property is located. Any discrepancies between the information contained in the PCR and what the appraiser observed during the inspection of the property must be noted and highlighted in the appraisal report.

A land appraisal may be warranted when the improvements are in such deteriorated condition as to provide no contributory value to the property or when condemnation proceedings by the local authority have acquired the improvements in part or in their entirety. In such cases, when the supporting land

represents the value of the property, the appraiser must report the appraisal on a form or in a narrative format that must address, at minimum, the following:

* Detailed information similar in scope to the Subject section of Fannie Mae Form 1004 March 2005 (Uniform Residential Appraisal Report) including, but not limited to, property address, legal description, owner of record, occupancy, assessment/tax information, and property rights appraised.

* Detailed information similar in scope to the Site section of Fannie Mae Form 1004 March 2005 (Uniform Residential Appraisal Report) including, but not limited to, size, zoning, highest and best use, shape, topography, drainage, utility availability, and location in a FEMA designated Special Flood Hazard Area.

*

A sales grid similar in scope to that presented in the Sales Comparison Approach section of Fannie Mae Form 1004 March 2005 (Uniform Residential Appraisal Report) including, but not limited to, detailed information on three comparable sales, attributes, number of comparable unimproved sale properties and offered/listed for sale properties.

Form FW 68, Land Appraisal Report, is an acceptable reporting format.

The appraiser must adjust the sales of comparable, unimproved building lots/sites for differences in location, size, zoning, utility connection and/or availability, site improvement and any other pertinent factors. Any costs incurred in razing the existing improvements and/or clean up should be extracted from the value of the supporting land to arrive at a final conclusion of value.

C. Scope

The appraiser must develop and report the appraisal in accordance with the scope of work requirements established by USPAP and HUD/FHA.

D. Contractual Responsibility of Appraisers

The appraiser is hired by the M&M contractor and, therefore, has a contractual responsibility to the M&M contractor. Additionally, as with any appraisal performed for a HUD/FHA program, the appraiser has an obligation to perform appraisal services commensurate the standards and requirements of HUD/FHA.

E. Intended Use of Appraisal

The intended use for an REO appraisal is to estimate the as is market value of the property in order to provide a basis for determining the listing price of the property for marketing purposes.

F. Intended User

The intended user of a REO appraisal is the M&M contractor, the lender (under certain circumstances) and HUD/FHA.

G. Statement of Insurability

The following definitions shall apply to the insurability of a REO property:

Insurable: Properties marketed as "insurable" are those that meet FHA's Minimum Property Requirements (MPR) for existing housing and Minimum Property Standards (MPS) for new construction at the time of the appraisal in their as-is condition without repairs being necessary.

Insurable With Repair Escrow: A property that requires no more than \$5,000 for repairs to meet FHA's MPR or MPS as estimated by the PCR and as reviewed and determined to be reasonable by the appraiser, is eligible to be marketed for sale in its as-is condition with FHA mortgage insurance available, provided the purchaser(s) establishes a cash escrow to ensure the completion of the required repairs. Purchaser(s) are permitted to include in the mortgage an amount equal to 110% of the estimated cost of the repairs.

Uninsurable: Properties offered for sale "Uninsured" do not meet, in their as-is condition, FHA's MPR or MPS and the cost of repairs identified by the appraiser, to meet MPR or MPS, are estimated to exceed \$5,000. Uninsurable properties can qualify for FHA's Section 203(k) rehabilitation program and, depending upon the scope and extent of repairs needed, the Streamlined (k) Limited Repair Program.

A Statement of Insurability, in bold font, must be included in the Comment section of the appraisal report. This Statement of Insurability shall indicate if the property can be sold with FHA mortgage insurance (meets MPR if existing construction or meets MPS if new construction) either (1) in its "as-is" state without repairs or (2) in its "as-is" state with repairs costing \$5,000 or less with repair escrow or (3) uninsurable. In appraising REO properties, as with the performance of any FHA appraisal, a FHA Roster appraiser must denote any deficiency to the supporting site or improvements in the appraisal report. The appraiser is to note those repairs necessary, together with a cost to cure, to bring the property into compliance with either MPR or MPS.

The marketing categorization, "Insurable with conditions", introduced in Mortgagee Letter 2000-27 and defined under "HUD REO Marketing Approaches" is no longer available. All other instructions and requirements outlined in Mortgagee Letter 2000-27 remain unchanged except where updated by the guidance and requirements provided in Mortgagee Letters 2005-34 and 2005-48.

H. Effective Date of Value

The effective date of value is the date when the appraiser performs the site visit for the subject property. If another date is used as the effective date, the appraiser must specifically indicate:

- * the alternative date (with detailed explanation of why)
- * the date when the subject property was physically inspected

I. Additional Appraisal Requirements

The appraiser must value the subject property from the information gathered and arrive at an estimated market value of the subject property based on the requirements detailed in the Appraisal Protocol, issued as an attachment to Mortgagee Letter 2005-48.

A building sketch is required, but a floor plan or room layout of the property is not required unless there is evidence of functional obsolescence. Representative interior photos are required in cases where there is significant interior repair (in excess of \$5,000 repair costs) required.

A-2 Sales Comparison Approach [<TOP>](#)

Typically, the Sales Comparison Approach is the most applicable approach to estimate the market value of a REO property. Appraisers may utilize sales comparables from other REO transactions only when such sales are deemed to be the best available for the market area and they meet all of the following criteria:

- * located in the subject neighborhood or reasonable proximity
- * comparable property subject to reasonable adjustment
- * sold with a willing buyer and seller
- * exposed to the market for a reasonable period

Appraisers are reminded that an explanation, as well as support, must be provided for any adjustments to the sales price of comparable sales that exceed the guidelines set forth in Revised Appendix D: Appraisal Protocol, pages D-31, D-68, D-98 and D-127, attachment to Mortgagee Letter 2005-48.

Inclusion of vacancy rates, rates of foreclosure and a discussion of foreclosure sales in the subject's market area may be used as additional support for reliance on sales of other REO transactions.

Do not use distressed sales such as Sheriff Sales. These sales do not involve a willing seller nor are they exposed to the market under normal conditions. The resulting value indication derived from the use of such sales is not consistent with the definition of market value.

A-3 Reporting Requirements [<TOP>](#)

As with any appraisal performed by a FHA Roster Appraiser, an REO appraisal must be performed in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP).

Other reporting requirements are as follows:

- * With each appraisal, the appraiser must provide a list of any buyer incentives that would enhance the marketability of the property to provide an incentive to buy the property unrepaid as opposed to repaid.
- * For all property constructed before 1978, the appraiser must condition the appraisal on the completion of a lead-based paint test.
- * For appraisals of vacant lots (land), complete a land appraisal report form.

APPENDIX B: SPECIAL PROGRAMS

B-1 203(K) REHABILITATION HOME MORTGAGE INSURANCE [<TOP>](#)

The Section 203(k) program is HUD's primary program for rehabilitating and repairing single-family properties. A Section 203(k) mortgage provides financing for the acquisition and rehabilitation construction of a property. The mortgage is funded by a HUD-approved lender and insured by HUD/FHA. A Section 203(k) mortgage may be used to perform the following:

- oPurchase a property and repair/renovate it.
- oPurchase a dwelling on another site, move it onto a new foundation and repair/ renovate it.
- oRefinance existing indebtedness and repair/ renovate a property.
- oRepair/renovate a presently owned property.

The following table summarizes which properties are eligible under Section 203(k).

Type of Property	Eligibility
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Condominiums	Yes 2
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Mobile homes Yes
Cooperatives No
Non-residential being converted to
single family (1-4 unit) Yes
Single family (over 1 year old) Yes

A 203(k) mortgage may be originated on a "mixed use" residential property provided that:

- o The percentage floor area used for commercial purposes follows these standards:
 - One story building 25%
 - Two story building 49%
 - Three story building 33%

- o The commercial use will not affect the health and safety of the occupants of the residential property

- o The rehabilitation funds will only be used for the residential functions of the dwelling and areas used to access the residential part of the property.

2 Condominiums are eligible only if they meet the following requirements:

- FHA/VA approved
- Maximum loan does not exceed 100%
- Improvements are only within the unit walls
- Condominium is complete with no ongoing or anticipated addition of any units or common areas
- Unit owners have had control of the common area for at least one year
- The condominium association has proof of hazard, liability and flood insurance coverage
- Unit is owned fee simple
- There are no restrictive covenants or provisions restricting conveyance of the unit
- A minimum of 90% of the units in the project have been sold
- 51 % or greater of the units in the project are owner occupied
- No single entity owns more than 10% of the units in a project with more than 30 units.
- No single entity owns more than 20% of the units in a project with less than 30 units.

B-1

6/99

A. ELIGIBLE IMPROVEMENTS

(B-1) A minimum of \$5,000 must be used in part for renovation and/or repair of an existing property.

Minor or cosmetic repairs or new fixtures alone, such as stoves and refrigerators, are not acceptable.

The repair or renovation may include:

- o making structural alterations such as repair or replacement of structural damage, additions to structure and finished attics and/or basements
- o eliminating health and safety hazards that would violate HUD's Minimum Property Standards
- o installing wells and/or septic systems and reconditioning plumbing
- o making changes for improved functions and modernization
- o making changes for aesthetic appeal and eliminating obsolescence
- o repairing or adding roofing, gutters and downspouts
- o making energy conservation improvements

- o landscaping, grading, repairing patios and terraces that improve the property equal to the dollar amount spent on the improvements
- o creating accessibility for the handicapped

B. INELIGIBLE IMPROVEMENTS

Any luxury item and/or improvement that does not become a permanent part of the subject property is not eligible, including:

- o additions or alterations to support commercial use or to equip or refurbish space for commercial use
- o recreational or luxury improvements, such as swimming pools, hot tubs, whirlpool baths and saunas
- o barbecue pits, bath houses, tennis courts, satellite dishes or tree surgery

C. BORROWER, PLAN REVIEWER AND APPRAISER

The borrower must have the following items prepared before an application, review or appraisal can occur:

- o an existing plan of the structure
 - o a proposed plan detailing where structural or planning changes are contemplated
 - o inspection reports from a qualified engineer or inspection service denoting the presence of rodents, dry rot or termites and evaluating the adequacy of the existing structural, heating, plumbing, electrical and roofing systems
 - o specifications of repairs
 - o for site improvements, a plot plan denoting the location of the structure, walkways, drives and other relevant details
 - o description of materials (HUD Form 92005 or similar form)
- 6/99 B-2

4150.2

203k Consultant: The borrower selects a HUD approved 203(k) Consultant to do the following:

- o visit the site
- o prepare work write-up that specifies a description and cost of each work item
- o review the architectural exhibits for compliance with HUD's Minimum Property Standards
- o inspect any of the property's health and safety items noted on the drawings

In comparing the cost estimates with others projects, the consultant can use R.S. Means & Company Repair and Remodeling Cost Data Book or The Home-Tech Remodeling and Renovation Cost Estimator. When the consultant has reviewed the property and respective plans, an appraisal can be requested. The lender will hire the same or another 203(k) Consultant to inspect the rehabilitation during construction and sign off on all draw requests.

Appraiser. The appraiser is required to perform an "as-repaired" appraisal and to report it on the URAR. When performing an "as-repaired" appraisal, appraise the subject property at its expected market value when the proposed rehabilitation and/or improvements are complete.

Also, a lender may request an "as-is" appraisal to be recorded on a separate URAR. Under an "as-is" appraisal, the subject property is appraised in its present condition to establish the value before rehabilitation. Repair requirements or VC conditions are not included in the "as is" valuation.

The appraiser must visit the property, review the architectural exhibits showing the proposed work and review the proposal for standard valuation conditions that may have been overlooked. If conditions exist that impact the safety and health of the occupants, discuss these items with the plan reviewer to correct them in the architectural exhibits.

B-2 SECTION 255: HOME EQUITY CONVERSION MORTGAGES (REVERSE MORTGAGES) [<TOP>](#)

A Reverse Mortgage allows a borrower aged 62 and older to borrow against the equity in a property that has limited outstanding debt. A subject property under this program must be a one- to four-unit dwelling in which the mortgagor occupies one of the units. The appraiser must perform the appraisal with the same standards and forms expected in an FHA single-family appraisal. It may be a unit in an approved condominium or Planned Unit Development (PUD). Manufactured homes are eligible if the home complies with outstanding FHA guidance. The same deficiencies and repair items must be noted on the URAR forms. In certain instances, the borrower is not required to treat any defective paint surfaces after closing for properties built before 1978.

B-3

4150.2

B-3 SECTION 223(E) [<TOP>](#)

Section 223(e) is a mortgage insurance program for properties located in older, declining urban areas. The program allows for the acquisition, repair and/or renovation or construction of a residential property. Under this program, FHA waives the requirement that the subject property have a remaining economic life of at least five years if the property is in a reasonably viable location where there is a need for affordable housing.

Appraisal: The property must comply with HUD's Minimum Property Requirements of , and the appraisal must denote any deficiencies on the VC form. When conducting an appraisal on a subject property eligible for this program, the appraiser must determine the remaining economic life by examining the pattern of recent changes in the adjacent sites' land use strategies that would be incompatible with single-family use. If the remaining economic life is less than five years, prepare a plan of the subject property denoting the land use patterns surrounding it.

The physical life of the property must be sufficient to permit a long-term mortgage. Under this program, the physical life of a property can be substituted for the economic life because of the special risk provisions that compensates for the economic factors that adversely affect the property.

B-4 TITLE I PROPERTY IMPROVEMENT AND MANUFACTURED HOME LOAN PROGRAM [<TOP>](#)

Title I is two-loan programs, one for property improvements and one for the purchase of manufactured homes and/or lots on which the manufactured homes are to be placed. No appraisal is needed for a property improvement loan; however, an appraisal of any real property involved in a manufactured home is required or for any existing home. This would be:

- o a manufactured home lot loan
- o the lot portion of a combination loan for the purchase of a lot and manufactured home
- o a used manufactured home

If a loan defaults, the lender repossessing the manufactured home under the Uniform Commercial Code or through judicial processes must request an N.A.D.A. appraisal. Appraisals of repossessed manufactured homes should be made before removal by the lender.

B-5 SOLAR ENERGY [<TOP>](#)

To encourage the use of solar energy in homes, HUD will insure a mortgage up to 20 percent above the maximum allowable insurable amount in a geographical area if such increase is necessary to account for the increased cost of the residence due to the installation of a solar energy system which may not exceed 20 percent of the value of the property.

An eligible solar energy system is defined as any addition, alteration, or improvement to an existing or new structure which is designed to utilize wind or solar energy to reduce energy requirements obtained from other sources. Active, passive and photovoltaic solar energy systems are permitted in this program, provided they are accompanied by operational 100 percent back-up conventional systems.

B-4

The solar energy system's contribution to value will be limited by its replacement cost or by its effect on the market price of the dwelling. In the event that market data is not available to indicate the additional amount which would be paid for a property containing a solar energy system, the amount of increase would be the lesser of the actual cost of the solar system installed in the subject house or 20 percent of the market value of the property. The difference in added value contributed by the solar system in comparison to the conventional system must represent a reasonable proportion of the total value of the property and may never exceed 20 percent of the market value of the property without a solar energy system.

A. Appraisal Procedure

The appraiser shall reflect in value the local market acceptance of solar heating equipment. Solar collectors must be located where they will be free from natural or man made obstructions to the sun.

1. Solar Hot Water Systems

Acceptability. When such systems are proposed to be installed, they must comply with the provisions of Use of Materials Bulletin Number 100, Subject: HUD Building Product Standards and Certification Program for Solar Water Heating Systems, issued August 15, 1993. [Use of Materials Bulletin are available for public inspection during regular business hours in the Office of Consumer and Regulatory Affairs, Department of Housing and Urban Development, Room 9156, 451 7th Street S.W., Washington, DC 20410. They will soon be available on the HUD Web Page.] When such a system is already installed in an existing home, the appraiser may request an inspection by a qualified solar system inspector/contractor for recommendations as to acceptability in operations, maintenance and life expectancy.

2. Photovoltaic Systems [In Preparation]

3. Limits to Value

The solar heating or hot water system's contribution to value will be limited by its replacement cost and by its effect on the market price of the dwelling. In estimating market value by comparing a subject property that has a solar heating system to a recently sold comparable property with a fossil fuel system only, increased the sale price of the comparable by the amount typically paid in the market for the solar heating system.

4. Temporary Procedure

Lack of Market Data. In the event that market data is not available to indicate the additional amount which would be paid for a property which does include solar heating or hot water system, then the amount of the increase shall be the difference in cost between all heating equipment, including solar installed in the subject house, less the cost of all heating equipment installed in the comparable property without a solar installation.

However, in making this adjustment based on differences in cost, the appraiser shall consider the ratio between the value added by a solar heating system and the value of the property with a conventional heating system only, to ensure that the contribution of a solar heating system to the total value represents a reasonable proportion of the total value of the property.

5. Responsibility for Temporary Limit

The HOC will consider the costs of acceptable solar energy systems for homes of several sizes, and will consider the market prices of typical homes of these several sizes (without solar energy systems) in order to set a limit on the amount which a solar energy system can add to the estimated value of the subject property. This limit shall be expressed as a percentage of the market value of the subject property (before consideration of the solar energy system) and this limit shall not exceed 20 percent of the market value of the subject property (without a solar energy system).

APPENDIX C: APPRAISAL OF SINGLE FAMILY HOMES ON NATIVE AMERICAN LANDS

C-1 OVERVIEW [<TOP>](#)

For purposes of this appraisal guidebook, if a lender specifically needs an appraisal under HUD/FHA's Section 248 program on Tribal Trust land or for HUD's Office of Native American Program (HUD/ONAP) Section 184 on Tribal Trust, allotted (which is also known as individual trust) and fee simple lands, these guidelines will apply. If the property is on allotted (or individual) trust or fee simple land located on Native American Reservations and it will be mortgaged under HUD/FHA's Section 203(b), the appraiser must use the basic appraisal methodology addressed in this handbook.

Within designated Native American Reservations, treaties and tribal laws have created a variety of ownership patterns. Some parcels may be unrestricted fee simple, other parcels restricted tribal trust or allotted trust land. The appraiser must be familiar with the different restrictions and develop a reasonable value for the subject property. Following are the general designations.

C-2 PROPERTY RIGHTS APPRAISED [<TOP>](#)

A. FEE SIMPLE UNRESTRICTED

Fee simple unrestricted ownership is ownership real property which may be bought, sold and transferred between Native American or non-Native American purchasers without review by the Tribe or Bureau of Indian Affairs, (BIA). For the HUD/FHA Section 203(b) program, appraisals must conform to all other standard HUD appraisal policies. For the HUD/ONAP Section 184 program, fee simple land on a reservation, the procedures utilized for tribal trust and allotted trust may be followed.

B. TRIBAL TRUST LANDS

1. Restricted Trust Land is land held by an individual Indian or Tribe which is subject to Federal restriction against alienation or encumbrance. Before any lien can be placed against restricted land, the

transaction must be approved by the Bureau of Indian Affairs (BIA). All HUD loans must comply with this requirement and provide evidence in the HUD loan file. Lenders are encouraged to make contact with the appropriate BIA and Tribal realty officers early in the loan processing.

Tribal trust lands are held in trust for the tribe by the United States government. Tribes may lease portions of the tribal trust land for the use of specific individuals, but ownership, through the Federal trust, remains with the tribe.

HUD/FHA's Section 248 insures mortgages and HUD/ONAP's Section 184 guarantees mortgages on homes that are located on Native American Tribal Trust Land. For these properties, leased ownership of the underlying land remains with the tribe and will be subject to a long-term 50-year ground lease (or a 25 year lease with a 25 year renewable term). Determining the value for the leasehold estate is the purpose of the appraisal and the subsequent use is to provide supporting documentation for a HUD insured or guaranteed mortgage. Mortgages on tribal trust sites must include an acceptable lease signed by the mortgagor and Tribal authority and approved by the BIA.

2. Allotted (or individual) Trust Land is land owned by individual tribal members but held in trust by the United States government. It is common for allotted trust lands to be owned by several individuals. If a prospective borrower proposes to use all or a portion of a fractionated property, all other owners must indicate acceptance of this arrangement by becoming parties to the mortgage or subdividing the subject parcel out to the individual for undivided ownership.

Mortgages on allotted (or individual) trust sites do not involve a lease, but a specific mortgage rider is required. All HUD loans must have a Deed of Trust Rider attached approving the mortgage pursuant to 25 USC 483 (a) and approved by the BIA.

HUD/ONAP's Section 184 guarantees mortgages on allotted trust land. Allotted trust land is held in trust by the federal government for individual Native Americans. The land is owned by the individual and value is given for the land. When appraising allotted trust land for Section 184, appraisers may follow the method given for Tribal Trust Land.

HUD/FHA insures mortgages on homes that are located on allotted trust land under Section 203(b). The appraiser can use this data for background information, but must use the typical appraisal practices for FHA Section 203 addressed in Chapters 3 and 4 of this handbook.

The appraiser must perform the complete appraisal process according to current USPAP and HUD/FHA standards. This includes consideration of all applicable approaches to value and complete development of all applicable approaches, as identified herein.

C-3 APPROACHES TO VALUE [<TOP>](#)

The appraiser must be familiar with the different restrictions and develop the appropriate value for the subject property. The supply of comparable sales and rental transactions vary by site and by tribes. Until sufficient sales exist on a reservation or within the specific Native American area to provide a reasonable sales comparison approach for determining the value of tribal trust leaseholds or allotted land sales, the appraiser must rely on other value indicators. The appraisal process must be documented more thoroughly than a typical market appraisal. USPAP Standards #1 and # 2 are effective to allow the appraiser to "correctly employ those recognized methods and techniques that are necessary to produce a credible appraisal." And "in reporting the results of a real property appraisal an appraiser must communicate each analysis, opinion and conclusion in a manner that is not misleading." An appraisal on trust land may rely more on the cost approach, or data developed from other tribes. HUD will accept the

report if the appraiser has documented the search, information developed and conclusions clearly for the intended users to understand.

A. Cost Approach

The cost approach is often the primary indication of value based on the unique nature of the reservation setting. In conjunction with the completion of this approach on tribal trust sites, the value of the site as vacant does not apply. On the cost approach addenda to the URAR the value of the site is zero or a small leasehold value. If the land lease is at market and there was no upfront payment the lease-fee value is equivalent to the leasehold value, which is zero. This is the typical scenario and no value exists for the underlying land. The appraiser should enter the statement "subject is on Tribal Trust Land with annual rent not capitalized" in comments. If a market exists and the land was purchased, the value is estimated via traditional methods.

1. New Construction

Due to the flexibility allowed by law, HUD permits the inclusion of development costs for new construction, which can exceed market value, to be used in both section 248 and Section 184. Following are instructions specific to new construction on tribal lands. The basic appraisal methodology is addressed in Chapter 4 of this handbook.

In addition to including the cost of water, septic, and any other on-site costs in the cost approach, for lands within the reservation, the appraiser may provide an allowance for off-site development costs. The lesser of actual pro-rated costs or up to 15% of the cost of the construction of the subject house may be added for off-site infrastructure associated with development of the subject lot. This policy applies principally to new construction where such charges are assessed by tribally approved entities such as housing entities or housing authorities, or agreements with other federal or local government bodies for providing power, utilities, sewer/water and/or road construction. The costs to bring utilities; including public water, sewer, electricity, and telephone represent significant development costs. The traditional tract development of residential homes may not be a part of the local culture. Therefore, the utility costs to hook-up to any form of a public system in a more rural area can exceed local standards.

In remote areas, the construction costs in the Marshall & Swift guide or related cost manuals may have to be adjusted for transportation, labor or other costs not included in the basic estimate. Architect fees are not typically reflected in the base building costs. Due to special circumstances the normal allocation for this fee may not automatically reflect the above actual cost. The appraiser must provide a supporting explanation in the adjustments to the construction costs.

2. Existing Construction

Where market sales are limited, HUD requires the cost approach to be completed on all tribal trust appraisals, including a credible estimate of depreciation.

B. Sales Comparison Approach

Native American communities are developing economies at varying rates and degrees. It is important for the lender and HUD to understand the economic factors which affect value. Therefore the appraiser must communicate the local tribal housing market. The sales comparison approach will generally be completed, and in remote areas may involve sales up to 18 months old. Where no credible comparables are available, a narrative justification that discusses the market, and provides any sales, rental or vacancy information pertinent to the subject will be acceptable to support value developed from the cost approach. In addition to the typical data sources

the appraiser may obtain sales information from the local tribal or Bureau of Indian Affairs (BIA) realty office. Sales from other reservations within the region may be considered. Each situation will have unique factors and the appraiser should explain deviations from the sales comparison approach instructions outlined in Chapter 4 of this Handbook. The order of selection preferences for sales would depend on the type of land being appraised.

- * Tribal Trust Leasehold sales (market sales between tribal members)

- * Sales of allotted land trust between tribal members

- * Fee Simple within the Reservation (residual value of the improvements by adjusting out the land contribution)

- * Fee Simple proximate to the Reservation

For comparable sales that include land value, an adjustment is required to back-out the raw land value. This adjustment is required when comparing a fee simple comparable sale to a Native American trust sale transaction.

Enter adjustments on the form under "Other" and label as "Raw Land Value, "which is determined separately for each of the comparable sales.

C. Income Approach

The income approach is generally not developed with regard to Native American Trust Land. If the property includes a rental unit(s), the appraiser must provide an estimate of monthly rent for each unit and note whether or not the rent is limited to the tribal sub-market. If the appraiser determines that this approach is justified, the appraiser should complete the income approach according to the specifications outlined in Chapter 4 of this Handbook.

D. Reconciliation of Value

The appraiser must determine the market value for the restricted trust properties from the limited data available. Value determination on trust land is an exception to typical HUD/FHA instructions; value is not limited to the lower of cost or market. Where market information is limited, greater weight may be given to the replacement cost approach. Document the decision process and the value.

C-4 HUD/FHA REQUIREMENTS [<TOP>](#)

On loans involving restricted trust land, with either Section 184 or Section 248, HUD waives the requirement of a strict interpretation of market value and will accept loans based on the above market cost approach. All other HUD health, safety, access, and property condition issues must conform to FHA requirements.

The appraiser must indicate if the property is in need of, or in the process of receiving any repairs. Make appropriate requirements for repairs-to-be-completed and appraise the property "as repaired."

The appraiser must indicate if the property conforms to the applicable Minimum Property Requirements of this Handbook. If it does not, the appraiser must recommend correction of the deficiency or rejection of the loan and explain. Tribally owned and maintained streets and utilities are considered publicly owned. Appraisers must require easements and a maintenance agreement for non-public, common ownership situations.

HUD accepts tribal enforcement of building codes and inspections to the extent they are standard and enforced. At the point tribal support is not available, review and certification that the work complies with an appropriate national standard must be contracted out to a licensed or certified specialist. Example, a tribe issues building permits, but has no provisions for inspections. The lender/borrower must contract with a lender approved qualified specialist such as an engineer, architect or inspector. Inspection/approval by the Indian Health Service is acceptable for individual or community water and sewer systems.

The remaining economic life must be estimated and reported but does not limit the mortgage. The subject property must possess sufficient remaining physical life to warrant a long-term mortgage. The mortgage term may not exceed the remaining physical life of the property.

A. HUD/FHA Section 248 and HUD/ONAP Section 184 Requirements

For both Section 248 and Section 184 programs, the property must be free of hazards, noxious odors, grossly offensive sights or excessive noises which might endanger the physical improvements, affect the livability of the property, its marketability, or the health and safety of its occupants. If any of these conditions exist, the appraiser must recommend correction of the problem or rejection of the loan and explain.

For both programs, the appraiser will make appropriate requirements to correct any observed or potential environmental problems. Many reservations have not been mapped for the 100-year flood plain. If the appraiser observes a possible flood plain problem, they are to require flood insurance on existing properties. The Underwriter may waive the flood insurance requirement if the borrower or the tribe provides an elevation certificate from a licensed engineer that the property is not at risk from flooding. Note that the lowest floor (including basement) for new construction must be at or above the 100-year flood elevation.

B. REPORTING REQUIREMENTS

The appraiser must report if an approach was not developed and insert the rationale for exclusion of the approach. The appraiser must attach an addendum complete with the assumptions supporting the indication of value by the cost approach. The cost approach is reconciled to the other values, if any, on the URAR. The appraiser will indicate any work requirements or VC pursuant to outstanding instructions. The DE underwriter/lender must assure acceptable completion of any work requirements pursuant to existing instructions.

C-5 INSTRUCTIONS FOR ASSISTED APPRAISAL PROCESSING IN APPRAISAL HIGH COST AREAS [<TOP>](#)

To accommodate the special conditions associated with remote sites on Native American lands, the following assisted appraisal process is allowed.

The assigned appraisers may network with local personnel where the high cost of real estate appraisals is a concern for underwriting single family mortgages in Native American communities. To minimize this problem, FHA and ONAP will allow the use of trained local personnel to perform the inspection, provide current analysis of the local market, and draft the appraisal report. The report must be forwarded to the assigned appraiser who will review the report, provide additional documentation, sign the URAR and forward the report to the lender.

Using the Assisted Appraisal Process is restricted to remote areas where licensed appraisers are not readily available. It may be used when the cost of transportation and/or time increases the cost of the appraisal to twice the cost of typical appraisals in the local urban areas. The process must be monitored and acceptable to the DE underwriter/lender. The assigned appraiser may use local subcontractors who:

- * Have general real estate skills (construction, lending, sales, management) acceptable to the appraiser (such as Housing Authority staff, Tribal Designated Housing Entities (TDHE) staff or BIA realty personnel, local real estate professionals).

- * Must comply with the Conflict of Interest limitations (have no personal or financial interest with the buyers or sellers of the property).

- * An appraiser who signs a real property appraisal report prepared by another, even under the label of "review appraiser" must accept full responsibility for the contents of the report, USPAP Standard 2-5.

- * The assigned appraiser is responsible for the entire appraisal and signs the URAR. The individual assisting in the report must document the extent of help provided and certify no conflict of interest exists in the certification.

- * The assigned appraiser must be familiar with the Competency Rule in the USPAP. This includes key issues such as the unique property rights conveyed, the local market involved and market conditions. It is assumed the remote area markets will change slowly. If conditions have changed, an updated analysis is required. The assigned appraiser assumes all responsibility that the appraisal meets all HUD/FHA and ONAP program requirements.

[Click Here for Appendix D effective January 1, 2006](#)

[Click Here for Mortgagee Letter 05-48](#)

APPENDIX D: VALUATION PROTOCOL

The appraisal process is the lender's tool for determining if a property meets the minimum requirements and eligibility standards for a FHA-insured mortgage. Underwriters bear primary responsibility for determining eligibility; however, the appraiser is the on-site representative for the lender and provides preliminary verification that the General Acceptability Criteria standards have been met.

FHA RESIDENTIAL APPRAISAL REQUIREMENTS

This section provides specific instructions for completing appraisal report forms.

The appraisal reporting form to be used will depend on the property type that is being appraised. The appraiser must select the appropriate appraisal form for reporting an FHA appraisal from the following:

1. Uniform Residential Appraisal Report (Fannie Mae Form 1004 March 2005) - Required to report an appraisal of a one-unit property or a one-unit property with an accessory unit.
2. Manufactured Home Appraisal Report (Fannie Mae Form 1004C March 2005) - Required to report an appraisal of a one-unit manufactured home.

3. Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073 March 2005) - Required to report an appraisal of a unit in a condominium project or a condominium unit in a planned unit development (PUD).
4. Small Residential Income Property Appraisal Report (Fannie Mae Form 1025) - Required to report an appraisal of a two- to four-unit property.

An appraisal performed for HUD/FHA purposes requires that all sections of the appraisal form be addressed. The appraiser must complete the form in a manner that clearly reflects the thoroughness of the investigation and analysis of the appraisal findings. The conclusions about the observed conditions of the property provide the rationale for the opinion of market value. The completed appraisal form utilized, together with the required exhibits, constitutes the reporting instrument to HUD for FHA-insured mortgages.

The FHA Appraisal is made
Under the following conditions

A. "As Is"

1. There is/are no repair(s), alteration(s) or inspection conditions noted by the appraiser, or
2. Establishing the "as is" value for a regular 203(k), or
3. The property is being recommended for rejection

B. "Subject to Completion per Plans and Specifications"

1. Proposed Construction where construction has not started, or
2. Under Construction but not yet complete (less than 90%), or
3. Regular 203(k)

C. "Subject to the following Repairs or Alterations"

1. Repair or Alteration Condition(s) noted by the appraiser, or
2. Streamline 203K, or
3. Under Construction, more than 90% complete with only minor finish work remaining (buyer preference items i.e., floor coverings, appliances, fixtures, landscaping, etc.). This eliminates the need for construction exhibits.

D. "Subject to the following Required Inspection"

1. Required Inspection(s) noted by the appraiser

FHA Quick Tips

Minimum Property Requirements (MPR) and Minimum Property Standards (MPS)

For new construction to be eligible for FHA financing, it must comply with HUD's Minimum Property Standards (including 24 CFR 200.926d). Existing construction must comply with HUD's Minimum Property Requirements (HUD Handbook 4905.1). .

In the performance of an FHA appraisal, the appraiser must denote any deficiency in the appropriate section(s) (site issues in the site section, improvement issues in the improvements section) of the appraisal report. The appraiser is to note those repairs necessary to make the property comply with FHA's Minimum Property Requirements (MPR) or Minimum Property Standards (MPS) together with the estimated cost to cure. The lender will determine which repairs for existing properties must be made for the property to be eligible for FHA-insured financing.

Cosmetic repairs are not required; however, they are to be considered in the overall condition rating and valuation of the property. Examples of cosmetic repairs would include surface treatments, beautification or adornment not required for the preservation of the property. For example, generally, worn floor finishes or carpeting, holes in window screens, or a small crack in a windowpane are examples of deferred maintenance that do not rise to the level of a required repair but must be reported by the appraiser.

The physical condition of existing building improvements is examined at the time of the appraisal to determine whether repairs, alterations or inspections are necessary - essential to eliminate conditions threatening the continued physical security of the property.

Required repairs will be limited to necessary requirements to:

- * protect the health and safety of the occupants (Safety)
- * protect the security of the property (Security)
- * correct physical deficiencies or conditions affecting structural integrity (Soundness)

A property with defective conditions is unacceptable until the defects or conditions have been remedied and the probability of further damage eliminated. Defective conditions include:

- * defective construction
- * other readily observable conditions that impair the safety, sanitation or structural soundness of the dwelling

Typical conditions that would require further inspection or testing by qualified individuals or entities:

- * infestation - evidence of termites
- * inoperative or inadequate plumbing, heating or electrical systems
- * structural failure in framing members
- * leaking or worn-out roofs
- * cracked masonry or foundation damage
- * drainage problems

Appraisers are reminded not to recommend inspections only as a means of limiting liability. The reason or indication of a particular problem must be given when requiring an inspection of any mechanical system, structural system, etc.

These guidelines are provided to assist in the examination of the property. To perform this analysis, the appraiser must have full access to all property improvements.

If unable to visually evaluate the improvements in their entirety, contact the lender and reschedule a time when a complete visual inspection can be performed. This includes access to the crawl space and attic. The appraiser is not required to disturb insulation, move personal items, furniture, equipment, plant life, soil, snow, ice or debris that obstructs access or visibility.

An inspection done in accordance with these guidelines is visual and is not technically exhaustive. These guidelines are applicable to buildings with four or less dwellings units and their related property improvements.

Unacceptable Locations

FHA guidelines require that a site be rejected if the property being appraised is subject to hazards, environmental contaminants, noxious odors, offensive sights or excessive noises to the point of endangering the physical improvements or affecting the livability of the property, its marketability, or the health and safety of its occupants. Rejection may also be appropriate if the future economic life of the property is shortened by obvious and compelling pressure to a higher use, making a long-term mortgage impractical.

If the condition is clearly a health and safety violation, contact the lender for further instructions before completing the appraisal. The lender must clear the condition and may require an inspection or reject the property. If there is any doubt as to the severity, report the condition and submit the completed report.

For those conditions that cannot be repaired, such as site factors, the appraised value is based upon the existing conditions.

Site Hazards And Nuisances

The appraiser must note and comment on all hazards and nuisances affecting the subject property that may endanger the health and safety of the occupants and/or the structural integrity or marketability of the property, including: subsidence, operating and abandoned oil and gas wells, abandoned wells, slush pits, heavy traffic, airport noise and hazards, runway clear zones/clear zones, proximity to high pressure gas, liquid petroleum pipelines or other volatile and explosive products, residential structures located within the fall distance of a high-voltage transmission line, radio/TV transmission tower, etc., excessive hazard from smoke, fumes, odors, and stationary storage tanks containing flammable or explosive material.

If hazards or nuisances are observed, the appraiser must describe the condition(s) and make a requirement for repair and/or for further inspection, and prepare the appraisal "subject to repairs" and/or "subject to inspection" in the site section of the report. Supporting documentation provided by the appraiser may include extra photos or copies of site studies or analyses, property reports, surveys or plot plans, etc.

Any and all references to Valuation Condition items addressed in Chapters 2 and 3 are to be addressed in the appropriate section of the applicable appraisal reporting form. For example, Chapter 2, Sec. 2-2-E, Slush Pits, instructs: "If there is any readily observable evidence of slush pits, mark the "yes" column in VC-1". The new protocol will require the appraiser to address this condition in the site section of the appraisal report and note that the property may not be eligible for FHA financing referencing the information contained in chapter 2; otherwise, the guidance provided by chapters 2 and 3 remains in effect.

Soil Contamination

Check readily observable evidence of hazardous substances in the soil. Conditions that could indicate soil contamination include pools of liquid, pits, ponds, lagoons, stressed vegetation, stained soils or pavement, drums or odors. If any of these conditions exist further analysis or testing is required. Note the proximity to dumps, landfills, industrial sites or other sites that could contain hazardous wastes.

If there is any readily observable surface evidence of leakage from an underground storage tank, further analysis or testing is required. If there is readily observable evidence of on-site contamination, make a requirement for further inspection in the site section of the report.

Grading and Drainage

Check for readily observable evidence of grading and drainage problems. Proper drainage control measures may include gutters and downspouts or appropriate grading or landscaping to divert the flow of water away from the foundation. If the grading does not provide positive drainage from the improvements, make a repair requirement. Note any readily observable evidence of standing water near the property that indicates improper drainage. If the standing water is problematic, make a repair requirement in the site section of the report.

Individual Water Supply and Sewage Systems

Identify the type of utilities in the site section of the appraisal report. When water and sewer are private, well and septic testing is to be governed by state or local requirements; however, the appraiser must note any readily observable deficiencies regarding the well or septic system. The appraiser is also required to report on the availability of connection to public and/or community water/sewer systems. The lender is responsible for the determination of the feasibility for requiring connection.

Wood Destroying Insects/Organisms

Report any evidence of infestation in the "improvements section" of the appraisal report under "foundation" by simply marking the evidence of infestation box.

Private Road Access and Maintenance

Address private road access in site area under "off-site improvements". Private streets must be protected by permanent recorded easements or be owned and maintained by a HOA. Shared driveways must also meet these requirements.

Each property must have vehicular or pedestrian access. If the property is inaccessible by foot or by vehicle, note this deficiency. FHA defines all-weather surface as a road surface over which emergency vehicles can pass in all types of weather. If the property is not provided with an all-weather surface, note the absence of such in the appraisal.

Structural Conditions

Appraiser must answer yes/no question on the appraisal addressing physical deficiencies affecting structural integrity. If answered "yes", provide an explanation addressing the nature of the deficiency and recommend repairs, alterations or required inspections, in the improvements section under physical deficiencies/adverse conditions.

Foundation

Report any evidence of dampness or settlement by noting such under the foundation section of improvements description.

Describe the nature of the deficiency and recommend repairs, alterations or required inspections, if any, in the improvements section under physical deficiencies/adverse conditions.

Roofing

Identify roofing material type, and the condition observed, in the improvements section of the report. The nature and degree of any noted deficiency will determine whether the appraiser addresses the deficiency in the narrative comments area of the report under "condition of the property", or "physical deficiencies" affecting livability or structural soundness.

Mechanical Systems

Report on the condition of the improvements, which includes mechanical systems. The nature and degree of any noted deficiency will determine whether to address the deficiency in the narrative comments area of the report under "condition of the property", or "physical deficiencies" affecting livability or structural soundness.

Check mechanical, plumbing and electrical systems in the subject property to ensure that they are in proper working order. This examination entails turning on the applicable systems and observing their performance. If any conditions exist that would affect the health or safety of the occupants, condition the appraisal on the repair or alteration of the condition" and/or a "required inspection." The following is not an all-inclusive list, but a listing of the more common readily observable property deficiencies.

Electrical System

- * Examine the electrical system to ensure that there is no visible frayed wiring, or exposed wires in living areas and note if the amperage appears adequate for the property.

- * Operate a representative number of lighting fixtures, switches and receptacles inside the house, garage and on the exterior walls and note any deficiencies. If the appliances present at the time of the inspection

do not appear to be reasonable (undersized), determine if there is adequate amperage to run "standard" appliances, as per local code.

? The appraiser is not required to insert any tool, probe or testing device inside the panels or to dismantle any electrical device or control.

Plumbing System

? Flush the toilets and turn on a representative number of faucets to determine that the plumbing system is intact, that it does not emit foul odors, that faucets function appropriately, that both cold and hot water run and that there is no readily observable evidence of leaks or structural damage under fixtures.

? Turn on several cold water faucets in the house to check water pressure and flow. Flushing a toilet at the same time will also reveal any weaknesses in water pressure.

? If the property has a septic system, examine it for any signs of failure or surface evidence of malfunction.

Other Health and Safety Deficiencies

Address all health and safety issues, physical deficiencies or adverse conditions that affect the livability, soundness or structural integrity of the property. The nature and degree of any health and/or safety issues will determine whether to address said deficiency in the narrative comments area of the report under "condition of the property", or "physical deficiencies" affecting livability or structural soundness.

Lead Based Paint Hazards

For any home built prior to 1978, check for evidence of defective paint surfaces, including: peeling, scaling or chipping paint. For all FHA insured properties, correction is required to all defective paint surfaces in or on structures and/or property improvements built before January 1, 1978 in accordance with 24 CFR Part 35. Provide a detailed description and identify the exact location of any deficiency under "physical deficiencies" affecting livability.

Comparable Selection

At a minimum, comparable selection should be based on properties having the same or similar locational characteristics as well as physical characteristics which includes: style, age, size, utility and condition. Comparable sales should never be selected based on sales price.

In selecting comparables, use the bracketing method. Bracketing, as defined in The Dictionary of Real Estate Appraisal, Fourth Edition, Appraisal Institute, is "a process in which the an appraiser determines a probable range of values for a property by applying qualitative techniques of comparative analysis to a group of comparable sales. The array of comparable sales may be divided into two groups - those superior to the subject and those inferior to the subject. The adjusted sales prices reflected by these two groups limit the probable range of value for the subject and identify a bracket in which the final value opinion will fall." It is advisable to bracket sales using both dwelling size and sales price whenever possible. If bracketing is not possible, the appraiser should explain why.

For properties in established subdivisions, or for units in established condominium or PUD projects that have resale activity, the appraiser should use comparable sales from within the same subdivision or project as the subject property if there are any available. Resale activity from within the subdivision or project should be the best indicator of value for properties in that subdivision or project. If the appraiser uses sales of comparable properties that are located outside of the subject neighborhood, he or she must include an explanation with the analysis.

For properties in new subdivisions, or for units in new (or recently converted) condominium projects, the appraiser must compare the subject property to other properties in its general market area as well as to properties within the subject subdivision or project. This comparison should help demonstrate market acceptance of new developments and the properties within them. The comparable selection should include at least one sale outside the subdivision or project and one sale from within the subdivision or project. The third sale may be either.

In selecting the comparable sales, the appraiser should keep in mind that sales or resales from within the subject subdivision or project are preferable to sales from outside the subdivision or project as long as the developer or builder of the subject property is not involved in the transactions.

Rural properties often have larger lot sizes and their locations can be relatively undeveloped. As a consequence, there may be a shortage (or absence) of recent comparable sales in the immediate vicinity. This may cause the appraiser to select comparable sales that are located a considerable distance from the subject property. In those instances, the appraiser must use his or her knowledge of the area and apply good judgment in selecting comparable sales that are the best indicators of value for the subject property. In these situations, the appraiser must include an explanation of why the particular comparable sales were selected.

Only closed (settled) sales may be used as comparable sales 1, 2 or 3. If a sale is over six months is used, an explanation must be provided.

No sales over one year old are permitted except as "additional comparable sales" and would be identified as comparable sale(s) 4, 5 or 6. Properties under contract may be also be submitted as additional comparable sales 4, 5 or 6 to support trends or value conclusions observed.

FHA, VA, Conventional or cash sales are acceptable as comparable sales.

Intended Use of Appraisal

The intended use for all appraisals prepared for FHA is to support the underwriting requirements for an FHA-insured mortgage.

FHA Appraisals

FHA appraisals are no guarantee that the property is free from defects. The appraisal only establishes the value of the property for mortgage insurance purposes. Buyers need to secure their own home inspections through the services of a qualified inspector and satisfy themselves about the condition of the property.

Contractual Responsibility of Appraisers

The appraiser is hired by the lender and therefore has a contractual responsibility to the lender. However, the appraiser provides services for HUD programs, and therefore, has an obligation to perform these services commensurate with the standards and requirements of HUD. This dual responsibility of the appraiser is recognized in the review and reporting requirements of HUD. The lender and the appraiser must meet their respective obligations as prescribed by HUD/FHA. These contractual obligations to the lender and HUD/FHA are in addition to the appraiser's legal obligations to his or her credentialing state.

For HUD/FHA purposes

FHA appraisals are subject to the following scope of work, intended use, intended user, definition of market value, statement of assumptions and limiting conditions, and certifications. Modifications, additions, or deletions to the intended use, intended user, definition of market value, or assumptions and limiting

conditions are not permitted. The appraiser may expand the scope of work to include any additional research or analysis necessary based on the complexity of this appraisal assignment. Modifications or deletions to the certifications are also not permitted. However, additional certifications that do not constitute material alterations to this appraisal report, such as those required by law or those related to the appraiser's continuing education or membership in an appraisal organization, are permitted.

Field

Protocol

Scope of Work

The scope of work for this appraisal is defined by the complexity of this appraisal assignment and the reporting requirements of this appraisal report form, including the following definition of market value, statement of assumptions and limiting conditions, and certifications. The appraiser must, at a minimum:

(1) perform a complete visual inspection of the interior and exterior areas of the subject property, (2) inspect the neighborhood, (3) inspect each of the comparable sales from at least the street, (4) research, verify, and analyze data from reliable public and/or private sources, and (5) report his or her analysis, opinions, and conclusions in this appraisal report.

Intended Use

The intended use of this appraisal report is for the lender/client to evaluate the property that is the subject of this appraisal for a mortgage finance transaction.

Intended User

The intended user of this appraisal report is the lender/client and HUD/FHA

Definition of Market Value

"The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus."

Statement of Assumptions and Limiting Conditions: The appraiser's certification in this report is subject to the following assumptions and limiting conditions:

Field

Protocol

1. Matters of a Legal Nature

The appraiser will not be responsible for matters of a legal nature that affect either the property being appraised or the title to it, except for information that he or she became aware of during the research involved in performing this appraisal. The appraiser assumes that the title is good and marketable and will not render any opinions about the title.

2. Sketch of Improvements

The appraiser has provided a sketch in this appraisal report to show the approximate dimensions of the improvements. The sketch is included only to assist the reader in visualizing the property and understanding the appraiser's determination of its size.

3. Special Flood Hazard Area

The appraiser has examined the available flood maps that are provided by the Federal Emergency Management Agency (or other data sources) and has noted in this appraisal report whether any portion of the subject site is located in an identified Special Flood Hazard Area. Because the appraiser is not a surveyor, he or she makes no guarantees, express or implied, regarding this determination.

4. Court Testimony

The appraiser will not give testimony or appear in court because he or she made an appraisal of the property in question, unless specific arrangements to do so have been made beforehand, or as otherwise required by law.

5. Adverse Conditions

The appraiser has noted in this appraisal report any adverse conditions (such as needed repairs, deterioration, the presence of hazardous wastes, toxic substances, etc.) observed during the inspection of the subject property or that he or she became aware of during the research involved in performing this appraisal. Unless otherwise stated in this appraisal report, the appraiser has no knowledge of any hidden or unapparent physical deficiencies or adverse conditions of the property (such as, but not limited to, needed repairs, deterioration, the presence of hazardous wastes, toxic substances, adverse environmental conditions, etc.) that would make the property less valuable, and has assumed that there are no such conditions and makes no guarantees or warranties, express or implied.

Field

Protocol

5. Adverse Conditions, con't

The appraiser will not be responsible for any such conditions that do exist or for any engineering or testing that might be required to discover whether such conditions exist. Because the appraiser is not an expert in the field of environmental hazards, this appraisal report must not be considered as an environmental assessment of the property.

6. Repairs or Alterations

The appraiser has based his or her appraisal report and valuation conclusion for an appraisal that is subject to satisfactory completion, repairs, or alterations on the assumption that the completion, repairs, or alterations of the subject property will be performed in a professional manner.

Appraiser's Certification: The Appraiser certifies and agrees that:

FIELD

Protocol

1. Scope of Work

I have, at a minimum, developed and reported this appraisal in accordance with the scope of work requirements stated in this appraisal report.

2. Complete Visual

Inspection

I performed a complete visual inspection of the interior and exterior areas of the subject property. I reported the condition of the improvements in factual, specific terms. I identified and reported the physical deficiencies that could affect the livability, soundness, or structural integrity of the property.

3. USPAP Compliant

I performed this appraisal in accordance with the requirements of the Uniform Standards of Professional Appraisal Practice that were adopted and promulgated by the Appraisal Standards Board of The Appraisal Foundation and that were in place at the time this appraisal report was prepared.

4. Sales Comparison Approach

I developed my opinion of the market value of the real property that is the subject of this report based on the sales comparison approach to value. I have adequate comparable market data to develop a reliable sales comparison approach for this appraisal assignment. I further certify that I considered the cost and income approaches to value but did not develop them, unless otherwise indicated in this report.

5. Current Agreement for Sale

I researched, verified, analyzed, and reported on any current agreement for sale for the subject property, any offering for sale of the subject property in the twelve months prior to the effective date of this appraisal, and the prior sales of the subject property for a minimum of three years prior to the effective date of this appraisal, unless otherwise indicated in this report.

6. Prior Sales of

Comparable Sales

I researched, verified, analyzed, and reported on the prior sales of the comparable sales for a minimum of one year prior to the date of sale of the comparable sale, unless otherwise indicated in this report.

7. Most Similar Comparable Sales

I selected and used comparable sales that are locationally, physically, and functionally the most similar to the subject property.

8. Combining Land Sales

I have not used comparable sales that were the result of combining a land sale with the contract purchase price of a home that has been built or will be built on the land.

9. Adjustments to Comparable Sales

I have reported adjustments to the comparable sales that reflect the market's reaction to the differences between the subject property and the comparable sales.

10. Verification

I verified, from a disinterested source, all information in this report that was provided by parties who have a financial interest in the sale or financing of the subject property.

11. Competency

I have knowledge and experience in appraising this type of property in this market area.

12. Resources

I am aware of, and have access to, the necessary and appropriate public and private data sources, such as multiple listing services, tax assessment records, public land records and other such data sources for the area in which the property is located.

13. Reliable Sources

I obtained the information, estimates, and opinions furnished by other parties and expressed in this appraisal report from reliable sources that I believe to be true and correct.

14. Factors Impacting Value

I have taken into consideration the factors that have an impact on value with respect to the subject neighborhood, subject property, and the proximity of the subject property to adverse influences in the development of my opinion of market value. I have noted in this appraisal report any adverse conditions (such as, but not limited to, needed repairs, deterioration, the presence of hazardous wastes, toxic substances, adverse environmental conditions, etc.) observed during the inspection of the subject property or that I became aware of during the research involved in performing this appraisal. I have considered these adverse conditions in my analysis of the property value, and have reported on the effect of the conditions on the value and marketability of the subject property.

15. Knowingly Withholding Information

I have not knowingly withheld any significant information from this appraisal report and, to the best of my knowledge, all statements and information in this appraisal report are true and correct.

16. Professional Analysis

I stated in this appraisal report my own personal, unbiased, and professional analysis, opinions, and conclusions, which are subject only to the assumptions and limiting conditions in this appraisal report.

17. Present or Prospective Interest

I have no present or prospective interest in the property that is the subject of this report, and I have no present or prospective personal interest or bias with respect to the participants in the transaction. I did not base, either partially or completely, my analysis and/or opinion of market value in this appraisal report on the race, color, religion, sex, age, marital status, handicap, familial status, or national origin of either the prospective owners

or occupants of the subject property or of the present owners or occupants of the properties in the vicinity of the subject property or on any other basis prohibited by law.

18. Employment and Compensation

My employment and/or compensation for performing this appraisal or any future or anticipated appraisals was not conditioned on any agreement or understanding, written or otherwise, that I would report (or present analysis supporting) a predetermined specific value, a predetermined minimum value, a range or direction in value, a value that favors the cause of any party, or the attainment of a specific result or occurrence of a specific subsequent event (such as approval of a pending mortgage loan application).

19. Personally Prepared Report

I personally prepared all conclusions and opinions about the real estate that were set forth in this appraisal report. If I relied on significant real property appraisal assistance from any individual or individuals in the performance of this appraisal or the preparation of this appraisal report, I have named such individual(s) and disclosed the specific tasks performed in this appraisal report. I certify that any individual so named is qualified to perform the tasks. I have not authorized anyone to make a change to any item in this appraisal report; therefore, any change made to this appraisal is unauthorized and I will take no responsibility for it.

20. Identified Lender/Client

I identified the lender/client in this appraisal report who is the individual, organization, or agent for the organization that ordered and will receive this appraisal report.

21. Lender/Client Disclosure and Distribution of Appraisal Report

The lender/client may disclose or distribute this appraisal report to: the borrower; another lender at the request of the borrower; the mortgagee or its successors and assigns; mortgage insurers; government sponsored enterprises; other secondary market participants; data collection or reporting services; professional appraisal organizations; any department, agency, or instrumentality of the United States; and any state, the District of Columbia, or other jurisdictions; without having to obtain the appraiser's or supervisory

appraiser's (if applicable) consent. Such consent must be obtained before this appraisal report may be disclosed or distributed to any other party (including, but not limited to, the public through advertising, public relations, news, sales, or other media).

22. Disclosure and Distribution by Appraiser

I am aware that any disclosure or distribution of this appraisal report by me or the lender/client may be subject to certain laws and regulations. Further, I am also subject to the provisions of the Uniform Standards of Professional Appraisal Practice that pertain to disclosure or distribution by me.

23. Who May Rely on Appraisal Report

The borrower, another lender at the request of the borrower, the mortgagee or its successors and assigns, mortgage insurers, government sponsored enterprises, and other secondary market participants may rely on this appraisal report as part of any mortgage finance transaction that involves any one or more of these parties.

24. Electronic Signature

If this appraisal report was transmitted as an "electronic record" containing my "electronic signature," as those terms are defined in applicable federal and/or state laws (excluding audio and video recordings), or a facsimile transmission of this appraisal report containing a copy or representation of my signature, the appraisal report shall be as effective, enforceable and valid as if a paper version of this appraisal report were delivered containing my original hand written signature.

25. Civil Liabilities & Criminal Penalties

Any intentional or negligent misrepresentation(s) contained in this appraisal report may result in civil liability and/or criminal penalties including, but not limited to, fine or imprisonment or both under the provisions of Title 18, United States Code, Section 1001, et seq., or similar state laws.

Appraiser /Client Information

Field

Protocol

Signature

* For FHA appraisals, the only signature permitted is that of the Lender Selected FHA Roster Appraiser. Supervisory signatures are not permitted.

* The signature, as defined in USPAP, is personalized evidence indicating authentication of the work performed by the appraiser and the acceptance of responsibility for content, analysis, and the conclusions of the report. It may be an original or electronic signature.

* An electronic signature must be controlled by a personal identification number, or other media, where the appraiser has sole personal control of affixing the signature.

* The appraiser bears the responsibility for the report with their signature on it. Therefore, appraisers are advised to keep their personal control code confidential.

Name

* Enter appraiser name as it appears on the license.

Company Name

* Enter company name if applicable.

Company Address

* Enter address of business or company with city, state and zip code.

Telephone Number

* Enter phone number with area code.

Email Address

* Enter e-mail address if you send reports electronically.

Date of Signature and Report

* Enter the date the report is signed.

Effective Date of Appraisal

* Enter the effective date of the appraisal which, for FHA purposes, is the date the property was inspected.

State Certification #

* Enter state certification number if applicable.

or State License #

* Enter state license number.

or Other (describe)

* Enter "N/A"

State

* Enter the state of licensure.

Expiration Date

* Enter the expiration date of State Certification or License Number.

ADDRESS OF PROPERTY APPRAISED

* This field should auto populate with the appraisal software used. If not, enter the full property address including street, city, state and zip code.

APPRAISED VALUE OF SUBJECT PROPERTY \$

* Enter the appraised value.

Name

* Enter the name of person who ordered the appraisal.

Company Name

* Enter name of lender/client

Company Address

* Enter company address

Email Address

* Enter email address where report was transmitted if applicable

Required Attachments/Exhibits for FHA appraisals

Item

Protocol

Street Map

* Include a legible street map showing the location of the subject and each of the comparable sales utilized. If substantial distance exists between the subject and comparable sales, additional legible maps should be submitted to show the location of the comparable sales.

Sketch

* Include a building sketch showing the Gross Living Area Above Grade, including all exterior dimensions of the house. Include patios, porches, garages, breezeways and other offsets. State "covered" or "uncovered" to indicate a roof or no roof (such as over a patio).

- * Show calculations used to arrive at the estimated gross living area.
- * An interior sketch or floor plan is required for properties exhibiting functional obsolescence attributable to the lay out.

Subject Photographs

- * Front and rear at opposite angles to show all sides of the dwelling,
- * Any improvements with contributory value that are not captured in either the front or rear photograph,
- * Street scene photo to include a portion of the subject site.
- * If the subject property is proposed construction and the improvement has not started, the appraiser should take a photograph that shows the grade of the vacant lot.

Comparable Photos

- * Photos depicting the front view of each comparable sale utilized must be those taken by the appraiser. The photos taken by the appraiser are considered evidence of compliance with the Scope of Work of having inspected each comparable sale from the street. Use of MLS photos to exhibit comparable condition at the time of sale is acceptable; however, the appraiser must include their photos as well to document compliance.

The documentation provided by the required attachments/exhibits satisfies FHA's minimum requirements. However, additional exterior and/or interior photos, reports, studies, analysis, or copies of prior listings may be included in support of the appraiser's observation and analysis, e.g. photographs of positive or negative view influences, property deficiencies, or adverse conditions, provides strong supporting documentation of conditions observed on the date of the appraisal. Photo documentation of property condition is always advisable.

D-1 Uniform Residential Appraisal Report [<TOP>](#)

This section provides specific instructions for completing the Uniform Residential Appraisal Report (Fannie Mae Form 1004 March 2005, URAR).

This report form is designed to report an appraisal of a one-unit property or a one-unit property with an accessory unit; including a unit in a planned unit development (PUD), based on an interior and exterior inspection of the subject property. This form is not designed to report an appraisal of a manufactured home or a unit in a condominium or cooperative project.

Section 1 - Subject

This section provides the factual data to identify the property and the parties to the appraisal process. The *FHA case number together with *borrower and/or *property information will be supplied by the lender/client who engages the appraiser.

Field

Protocol

*File Number

? Insert the FHA Case Number at the top right corner of the page.

* The FHA appraisal may not be transmitted to the lender without a case number.

*Property Address

? Enter the property street number and name, city, state and zip code for the property. A post office box number is not acceptable. Enter the nearest intersection if a house number is not available.

*Borrower

* Enter the name of the borrower/mortgagor.

Owner of Public Record

* Enter the name of the owner as listed in public records. If the seller is not the owner of public record the appraiser must explain.

County

* Enter the name of the county in which the property is located. It further provides locational parameters. If not applicable enter "N/A".

Legal Description

? Enter the legal description of the property. The four types of legal descriptions are: lot and block system, geodetic survey, government survey system and metes and bounds system. If the space provided is insufficient, enter this information with the heading "Legal Description" in the "Additional Comments" section of the form report or attach this information as an addendum.

Assessor's Parcel

* Enter the parcel number assigned by the local tax assessor. For those areas that do not have an assessor's parcel number, enter the tax identification number.

Tax Year

* Enter the current tax year used by the locale, e.g. fiscal year or actual year.

R. E. Taxes \$

* Enter the dollar amount of the annual real estate taxes, including all relevant taxes (school district tax, fire district tax, etc.).

Neighborhood Name

* Enter the name of the subdivision, if applicable, or the commonly known local neighborhood designation. If the subject property is in a planned unit development, provide the name of the development.

Map Reference

* Enter location map reference, page number and coordinates, from source used. This reference should relate to the location maps most commonly used in the locale.

Census Tract

* Enter the census tract number. The census tract number must be provided.

* Census tract numbers have four digits and may have a two digit decimal suffix. Where the basic census tract number is less than four digits, the Census Bureau includes leading zeros except when displaying numbers on maps or printed reports. To uniquely identify a census tract, a two-digit state code and three-digit county code precede the four-or six-digit census tract number. The Census Bureau has an internet resource guide for locating census information. It can be found at URL: www.census.gov

Occupant

* Mark the box signifying the occupancy status at the time of the appraisal.

If vacant, the appraiser should note, in the "Improvements" section under "condition of the property," whether the utilities were on or off at the time of the appraisal. If off, condition the appraisal on a satisfactory re-inspection that the utility that was off at the time of the appraisal does not require alteration, repair or further inspection.

Special Assessments \$

- Report the dollar amount of special assessments for the subject property, if any, and provide a brief explanation for the assessment. Special assessments can include municipal bond debt for off-site improvements. Larger than typical special assessments may affect marketability. If not
- applicable enter "N/A".

PUD HOA\$

? Enter the dollar amount of the HOA fee and mark the box indicating if the fees are paid "per year" or "per month".

Property Rights Appraised

? Mark the appropriate box indicating the property rights appraised for the subject property as of the date of the appraisal. "Other" includes Land

Trust.

Assignment Type

* Mark the appropriate box indicating the assignment type.

Lender/Client

Address

? Enter the name of the lender/client who ordered and will receive the appraisal report.

* The use of the appraisal is to support FHA's decision to provide mortgage insurance on the real property that is the subject of the appraisal; therefore, intended users include the lender/client and FHA.

* Enter the lender/client's address.

Currently offered for sale or offered for sale in last 12 months.

* The appraiser's certification states in part "I have researched, verified, analyzed and reported on any current agreement of sale of the subject property, any offering for sale of the subject property in the twelve months prior to the effect date of the appraisal..."

* Mark the appropriate box indicating whether the subject is currently offered for sale or has been offered for sale in the 12-month period prior to the effective date of the appraisal. If there are multiple actions, report each instance. Research may reveal an expired or withdrawn listing. The prior listing may provide a good indication of the upper limit of value.

Report data source(s) used, offering price(s), and date(s)

* Complete this field regardless of whether the property is currently offered for sale or has been for sale in the 12 months preceding the date of the appraisal.

* Identify source(s) used, price(s) and date(s) of current or prior listings.

Section 2 - Contract

This section must be completed when the appraisal assignment involves a purchase transaction, otherwise enter "N/A" for not applicable. FHA requires that the appraiser be provided with a complete copy of the ratified sales contract, including all addenda, for the subject property.

It provides the agreed-on contract price (accepted offer), date of sale, and all financial terms implicit in the offer. If unable to obtain this information, the appraiser is to state what efforts were made to obtain it.

Field

Protocol

Analyze Contract for Sale

* Explain the results of the analysis (terms and conditions) of the contract of sale or why the analysis was not performed.

* The analysis may include a reference to the number of pages contained in the contract for sale provided.

Contract Price \$

? Enter the final agreed upon contract price?.

Date of Contract

? Enter the date of the contract. This is the date when all parties have agreed to the terms of, and signed the contract.

Is The Property Seller The Owner of Public Record

Data Source(s)

?????Mark the appropriate box indicating whether or not the seller is the owner of public record. The appraiser is instructed to contact the lender/client if the seller is someone other than the owner of record. The property may not be eligible for FHA financing if it involves flipping (resale in less than 90 days). The lender will make a determination for any exceptions to FHA's Flipping Rule and advise the appraiser.

? Report where the information was obtained.

Sales Concessions Down Payment Assistance

* Mark the appropriate box indicating whether or not there is any financial assistance (loan charges, sales concessions, gift or down payment assistance, etc.) paid by any party on behalf of the borrower. If necessary, use the "Additional Comments" section of the appraisal reporting form, or an addendum, and enter the heading "Sales Concessions" completing the description.

* If yes, the appraiser is to report the total dollar amount and describe the items to be paid. If the sale involves personal property (e.g. above ground pool, lawn mower, furniture, etc.) it should be identified and excluded from the valuation.

Section 3 - Neighborhood

This section should reflect the area surrounding the subject property. The appraiser must observe neighborhood characteristics and surrounding properties to make determinations that will be incorporated into the valuation of the subject property. In all instances, the appraiser must mark the appropriate box for each line in neighborhood characteristics and housing trends. Failure to note conditions that may adversely affect the value of the property is poor appraisal practice and violates the Uniform Standards of Professional Appraisal Practice.

NOTE: Race and the racial composition of the neighborhood are not appraisal factors.

Neighborhood Characteristics

Field

Protocol

Location

? Enter the type of area surrounding the subject property.

Urban - relates to a city

Neighborhood Characteristics

Field

Protocol

Location

Suburban - relates to an area adjacent to a city

Rural - relates to the country or beyond the suburban area

Built-up

? Enter the built-up percentage - the percentage of available land that has been improved. Land such as a state park would not be considered available land.

Growth

? Enter the growth rate. If many lots are available, the growth rate may be rapid, stable or slow, but if the neighborhood is fully developed, select the "stable" box.

One-Unit Housing Trends

Field

Protocol

Property Values

? Mark the box describing the current trend in property values for One-Unit single family homes in the community. Comparing houses that have been sold and resold in recent years is an effective way to determine market trends. Appraisers who use this method, however, should make sure to factor in any improvements or changes made to the property between sales.

Demand/ Supply

? Mark the appropriate demand/supply trend. To determine the equilibrium status of supply and demand in the neighborhood, compare the number of houses sold to the number of houses listed for sale in a recent time period. The similarity or difference between the number of houses sold and listed, not the absolute numbers, should determine the demand/supply level.

Marketing Time

? Mark the appropriate marketing time - the typical length of time a property similar to the subject property would have to stay on the market before being sold at a price near its market value.

One-Unit Housing Price Age

? Indicate the low and high neighborhood prices and ages as well as the predominant value and age. The high and low for both price and age should exclude the extreme.

Present Land Use %

One-Unit, 2-4 Unit, Multi-Family, Commercial, Other

? Estimate each type of land usage in the neighborhood. If there is no land in the neighborhood with one of the designated classifications, enter a "0". If a portion of the land consists of parks or other unspecified classifications, enter the estimated percentages on the "Other" line and explain in the neighborhood description section.

Neighborhood Narrative

Neighborhood Boundaries

? The appraiser must clearly define the boundaries - north, south, east and west - of the subject's neighborhood. Providing a description of neighborhood boundaries by physical features such as streets, rail lines, other man-made barriers or well defined natural barriers (i.e. rivers, lakes, etc.) details the make up and understanding regarding neighborhood composition.

Neighborhood Description

? Discuss factors that would attract residents or cause them to reject the neighborhood. Some typical factors important to discuss include:

- o Level of maintenance and condition of homes
- o Housing styles, ages, sizes, etc.
- o Land uses
- o Proximity to employment and amenities, including travel distance and time to local employment sources and community amenities
- o Employment stability, in terms of variety of employment opportunities and industries
- o Overall appeal of the neighborhood as compared to competitive neighborhoods in the same market
- o Convenience to shopping with respect to distance, time and required means of transportation
- o Convenience to schools in terms of the distance and time for travel to school

Market Conditions (including support for the above conclusions)

- * Provide relevant information in support of conclusions relating to trends in property values, demand/supply and marketing time.
- * Provide a description of the prevalence and impact of sales and financing concessions and/or down payment assistance in the subject's market area.
- * Other areas of discussion may include days on market, list to sale price ratios, and/or financing availability.

Section 4 - Site

This information provides the description of the land underlying the subject property. Insert factual information on each of the lines provided and report the conclusions as directed. Consider all aspects of the physical description and reconcile them in the opinion of market value. This section of the appraisal requires the appraiser to consider any adverse site conditions or adverse external factors that may impact value.

Field

? Protocol

Dimensions

? List all dimensions of the site beginning with the frontage. If the shape of the site is irregular, show the boundary dimensions (85' X 150' X 195' X 250'), or attach a property survey, site plan or plat or legal description with the comment, "see attached." Do not list site area on the dimensions line.

Area

? Enter the site area in square feet or acres. This entry must be consistent with the dimensions provided in the "Dimensions" field

Shape

? Describe the shape of the site, e.g. triangular, square, rectangular, irregular, flag lot.

View

? Briefly describe the view from the property (None is not an acceptable response).

* Identify a view with a significant positive or negative influence on the value.

* Photographs are recommended for any negative or positive view influences affecting value or marketability.

Specific Zoning Classification

? Enter the specific zoning classification used by the local municipality or jurisdiction, e.g., R-1

* If none exists enter "None Exists".

Zoning Description

* Describe what the specific classification means. Include a general statement describing what the zoning permits. For example: R-1 = Residential-Single Family

* If "None" exists, describe the prevalent use of sites in the neighborhood.

Zoning Compliance

? Determine whether the current use is in compliance with the zoning ordinances. Mark whether it is Legal, Legal Non-Conforming (Grandfathered Use), No Zoning, or Illegal Use.

? If the existing property does not comply with all of the current zoning regulations (use, lot size, improvement size, off street parking, etc.) but is accepted by the local zoning authority, enter "Legal Non-Conforming" and provide a brief explanation.

* If the use is not legal, the property is not eligible for FHA mortgage insurance.

Highest and

Best Use

? Mark the appropriate box. This entry questions the categorization as the highest and best use of the site as improved or, as proposed and completed, in relation to the neighborhood and current market conditions.

? If current use represents the highest and best use, mark "yes".

? If it does not, mark "no" and provide an explanation.

Utilities

? Mark either "Public" or "Other." If "Other" is marked, describe.

Public utilities mean governmentally supplied and regulated. Public does not include any community systems sponsored, owned or operated by the developer or a private company not subject to government regulation or financial assistance.

? Note if there are mechanical chlorinators or water-flow that decreases noticeably while running simultaneous plumbing fixtures.

* Visually inspect the septic system and its surrounding area. If there are obvious or readily observable signs of system failure, "require inspection" to ensure that the system is in proper working order.

Note: The appraiser shall indicate whether a public water or sewage disposal system is available to the site. If available, connection must be made to public or community water/sewage disposal system if connection costs are reasonable. The lender will determine whether connection is feasible.

Off-site Improvements-Type

? Briefly describe the off-site improvements under "Type" and enter road surface material and mark Public or Private. For example: "Street-Asphalt; Public", "Alley-None"

? Public refers to an improvement dedicated to and accepted by a unit of government - not including Home Owner's Associations.

FEMA Special Flood Hazard Area

? FEMA (Federal Emergency Management Agency) is responsible for mapping flood hazard areas. If the property is within a Special Flood Hazard Area, mark "YES". Otherwise, mark "NO".

? Attach a copy of the flood map panel for properties located within an identified flood hazard area.

FEMA Flood Zone

? Enter the FEMA Zone designation. Only properties within Special Flood Hazard Areas, such as zones "A" a special flood hazard area and "V" a coastal area, require flood insurance. Zones "B" "C" and "X" do not.

FEMA Map # and FEMA Map Date

? Enter the FEMA Map number and map date. If it is not shown on any map, enter

"Not Mapped."

Are utilities and off site improvements typical for the market area

* Mark the appropriate box indicating whether the utilities and off-site improvements are typical for the market area.

* If "No" is marked, describe what is typical.

Any adverse site conditions or external factors

? Mark the appropriate box indicating whether there are any adverse site conditions or external factors (easements, encroachments, environmental conditions, land uses, etc.).

* If "No" is marked, no comment is necessary, if "Yes" is marked, an explanation is required.

* Describe any adverse site conditions or adverse factors. Consider easements affecting the functional utility of the property in the conclusions of both the highest and best use and market value. For example, discuss adverse easements, encroachments, slide areas, illegal or non-conforming zoning use, etc. Consider surface, sub-surface and overhead easements.

* List any adverse environmental conditions, including hazardous waste, toxic substances and others.

* Explain all deficiencies that do not require repair (extreme slope, etc.) and consider them in the opinion of value.

? Discuss the observations with direct relationship to value and consider them in the approaches to value.

Section 5 - Improvements

This section describes the subject improvements. Accurately report the conditions observed. Describe needed repairs, or the existence of any functional or external obsolescence. Enter factual information on each of the lines provided and report the conclusions. Consider all aspects of the physical description and reconcile them in the opinion of market value.

Accessory Unit / Accessory Dwelling Unit

The accessory unit is defined as a habitable living unit added to, created within, or detached from a single-family dwelling that provides the basic requirements for living, sleeping, eating, cooking, and sanitation.

Accessory Dwelling Units (ADUs) are commonly understood to be a separate additional living unit, including separate kitchen, sleeping, and bathroom facilities, attached or detached from the primary residential unit, on a single-family lot. ADUs are usually subordinate in size, location, and appearance to the primary unit and may or may not have separate means of ingress or egress.

Attached units, contained within a single-family home, known variously as "mother-in-law apartments," are the most common type of accessory dwelling unit. Accessory units usually involve the renovation of a garage, basement, or small addition to a single-family home.

FHA Criteria

"Accessory dwelling unit" means a subordinate dwelling unit may or may not be incorporated within, or detached from a single-family structure.

Accessory units may not be subdivided or otherwise segregated in ownership from the primary residence structure.

Some accessory units may predate the adoption of local zoning ordinance and may therefore be classified as legal nonconforming units.

Utility Service Requirements

An accessory apartment must be connected to the utilities (except telephone, television and cable) of the dwelling unit and may not have separate services.

General Description

Field

Protocol

Units

? Mark the appropriate box. The URAR is designed for one-unit dwelling or one-unit with an accessory unit.

of Stories

? Enter the number of stories above grade, including half stories. Do not include the basement.

Type

? Mark the box that identifies the type of dwelling, "Det." (Detached), "Att." (Attached), "S-Det." (Semi-Detached) or "End Unit" (End unit of a group of rowhouses or townhouses).

Stage of Construction

? Mark the box signifying the stage of construction, Existing, Proposed or Under Construction.

Properties that are either Proposed or Under Construction require plans and specifications for the appraiser to review.

Design (Style)

? Enter a brief description of the house design style using historical or contemporary fashion. For example: Cape Cod, bi-level, split level, split foyer, colonial, town house, rowhouse, etc. Do not use builder's model name.

Avoid generic descriptions such as Traditional or Conventional.

Year Built

? If the property is less than one year old, include both the month and year completed.

? If it is over one year old, insert the year completed.

Effective Age (Yrs)

? Enter the effective age of the improvements. A range is acceptable. The effective age reflects the condition of the property relative to similar competitive properties. The effective age may be greater than, less than or equal to the actual age.

? Note any significant difference between the actual and effective ages and explain in the "condition of property" comments section.

Attic - Enter the attic and observe the interior roofing for insulation, deficient materials, leaks or readily observable evidence of significant water damage, structural problems, previous fire damage, FRT sheathing, exposed and frayed wiring and adequate ventilation by vent, fan or window. If any of these deficiencies exist, condition the appraisal on their repair and prepare the appraisal "subject to repairs" and/or "subject to inspection".

The attic must be entered, at a minimum, by head and shoulders, whether access is by pull-down stairway or scuttle. Size of the scuttle and accessibility of the attic dictate the level of entry.

Field

Protocol

None

Enter "X" if there is no attic.

Drop Stair

Enter "X" if this item exists.

Stairs

Enter "X" if this item exists.

Floor

Enter "X" if this item exists.

Scuttle

Enter "X" if this item exists.

Finished

Enter "X" if this item exists.

Heated

Enter "X" if the attic is heated.

Foundation

The appraiser is required to inspect the foundation and the basement. The appraiser must address all visible deficiencies and may require a recommendation for an inspection. Consider deferred maintenance and physical deterioration in the valuation process.

Basement

Generally, may be partially or completely below grade (ground level). Do not count the basement in the finished gross living area at the grade level. The information provided must be consistent with the description in the Foundation section.

Foundation

Field

Protocol

Concrete Slab

* Mark this box if any part of the foundation system has concrete slab.

Crawl Space

* Mark this box if any part of the foundation system has crawl space.

* Access to the space should be clear. Examine the crawl space for inadequate access (minimum entry of the head and shoulders).

* Check the distance from the bottom of floor joists to ground. Space should be adequate for maintenance and repair. A minimum distance of 18 inches from the ground to the bottom of the joists is highly recommended but not mandated.

Field

Protocol

Crawl Space

* Check for insulation, and ventilation or for any structural problems. The support beams should be intact and of structural soundness.

Full Basement

* Mark this box if there is a full basement.

Partial Basement

* Mark this box if there is a partial basement.

* For a dirt basement floor, determine whether such a property is typical for the area and is readily marketable. If so, it is not required that a concrete basement floor be installed. Mechanical equipment, however, must be located on a concrete pad.

Basement Area Sq Ft

* Enter the square footage of the basement.

Basement Finish %

* Enter the percentage of basement (figure above) that is finished.

Outside Entry/Exit

* Mark this box only if there is an outside entry/exit, otherwise leave blank.

* If there is an entry, make sure door is operable.

Sump Pump

? Mark this box only if there is a sump pump, otherwise leave blank.

Evidence of

Infestation

* Mark this box if there is evidence of infestation, including the house and/or other structures within the legal boundaries of the property, otherwise leave blank.

? Examine the subject property for readily observable evidence of wood boring insects.

* Do not require a pest inspection based solely on the age of a property. Inspections are necessary whenever there is evidence of decay, pest infestation, suspicious damage or when it is customary to the area or required by state law.

Evidence of Dampness

? Mark this box if there is evidence of dampness, otherwise leave blank.

* Examine the foundation/basement for dampness or readily observable evidence of water damage.

Signs of past water problems may include efflorescence, mold, mildew or stains on walls or mechanical equipment.

* Basement or crawl space area must not have excessive dampness or ponding of water.

* If any of these inadequacies exist, condition the appraisal "subject to repairs" to correct the condition, or "subject to inspection" to determine the source of problem and corrective measures necessary by a qualified party.

Evidence of Settlement

? Mark this box if there is evidence of settlement, otherwise leave blank.

?????Examine foundation for readily observable evidence of settlement.

* Hairline step-cracks are common, however, horizontal cracks, bulging walls or separation of sill plate from top of foundation wall are critical and require inspection.

Mechanical Systems

An appraiser must examine mechanical, plumbing and electrical systems of the subject property to ensure that they are in proper working order. This examination includes turning on the applicable systems and observing their performance. Electrical, plumbing, and/or heating certifications may be called for by the appraiser when he/she cannot determine if one or all of these systems are working properly. An appraiser should not arbitrarily call for such certifications. However, the appraiser is still responsible for checking the functionality of these systems at the time of appraisal.

Heating and Cooling Systems

Field

Protocol

Heating

? Enter an "X" in the box indicating the type of heating system: FWA (forced warm air), HWBB (hot water baseboard), Radiant or "Other". If "Other" is marked, provide a brief description, e.g. EBB (for electric baseboard).

* Turn on the furnace/heating system to test functionality, weather permitting, and that no unusual noises are heard, no odors or smoke are emitted indicating a defective unit, etc. However, do not operate the systems if doing so may damage equipment or when outside temperatures will not allow system to operate.

* Note significant holes/deterioration on the unit.

Heating

* Turn on the hot water to ensure that the water heater is operating appropriately.

Fuel

? Enter type of fuel used: coal, gas, oil, propane, electric, etc.

Cooling

* Enter an "X" in the box indicating the type of cooling system: Central Air Conditioning, Individual or Other. If "Other" is marked, provide a brief description, e.g. permanently affixed fans, zoned air-conditioning, etc.

* Turn on the air conditioning system to test functionality, weather permitting, and that no unusual noises are heard, no odors or smoke are emitted indicating a defective unit, etc. However, do not operate the systems if doing so may damage equipment or when outside temperatures will not allow system to operate.

* Note significant holes/deterioration on the unit

Exterior Materials/Condition

Enter the types of Materials and rate the observed Condition of the Materials (Good, Average, Fair, and Poor). Make every effort to describe accurately and explain in detail "Fair" and "Poor" ratings and whether or not the item(s) described require repair, replacement or further inspection. The rating must relate to the habitability of the house given local standards (Photo documentation of property condition is always advisable).

Exterior Description

materials/condition

Field

Protocol

Foundation Walls

* Enter the material type: poured concrete, block, brick, stone, treated wood, etc. and rate the observed condition.

Exterior Walls

? Enter the material type: aluminum, vinyl or wood siding, brick veneer, stucco, stone, etc. If a combination of materials, show the predominant portion first and rate the observed condition.

Roof Surface

? Enter the material type: composition shingle, asphalt shingle, wood, slate, clay tile, aluminum, built-up, etc. and rate the observed condition.

* View the roof from ground level to determine if the integrity of the roof is sufficient.

* Observe roof coverings, roof drainage systems, flashing, skylights, or chimneys for readily observable evidence of leakage or abnormal condensation on building components.

Exterior Description

materials/condition

Field

Protocol

Roof Surface

* Note any evidence of deterioration of roofing materials (missing tiles, shingles, flashing). Deteriorated roofing materials include those that are worn, cupped, or curled.

* If the roof is otherwise unobservable, look for telltale signs of roof problems on the interior, such as damage or water stains to the ceiling area of a room or closet.

* The appraiser must note in the appraisal that he/she could not adequately observe the entire roof area (state which area(s) were unobservable). Based on the information reported by the appraiser, the underwriter will determine whether or not a roofing inspection is required.

Gutters and Downspouts

? Enter the material type: galvanized, aluminum, plastic, vinyl, PVC, etc. and rate the condition observed.

Window Type

? Enter window type: Double Hung, Single Hung, Casement, Sliders, etc. and identify the window frame material: wood, aluminum, steel, vinyl, etc.

Rate the condition observed.

* Bedroom windows with security bars require a quick release mechanism for emergency egress. If not so equipped or inoperable, condition the appraisal on a "required repair".

Storm Sash / Insulated

? Describe storm sash material or state if windows are double glazed, etc. or a combination of the two. Rate the condition observed. If none, so state.

Screens

* Describe style (full, half, none) and rate the condition observed.

A brief description of an amenity may include its material type and/or size and/or dimensions.

Amenities

Field

Protocol

Woodstove #

* Enter "X" if this amenity exists and provide a specific number.

Fireplace(s) #

* Enter "X" if this amenity exists and provide a specific number. Fence

* Enter "X" if this amenity exists. Describe material/type in additional features.

Patio/Deck

* Enter "X" if this amenity exists. Describe material/type in additional features

Porch

* Enter "X" if this amenity exists. Describe material/type in additional features.

Pool

* Enter "X" if this amenity exists. Describe in additional features. Specify whether in-ground or above-ground. Above-ground pools are considered personal property and are not to be included in the value.

Other

* Enter "X" if this line is used to report another amenity or salient feature not listed above that has contributory value. Describe "Other" in additional features. Be sure to compare the subject and comparable sales in relation to that amenity or feature and make the appropriate adjustments.

Interior Materials/Condition

Enter the types of Materials and rate the observed Condition of the Materials (Good, Average, Fair, and Poor) and whether or not the item(s) described require repair, replacement or further inspection. Make every effort to describe accurately and explain in detail "Fair" and "Poor" ratings. The rating must relate to the habitability of the house given local standards.

Interior

materials/condition

Field

Protocol

Floors

* Enter material type - tile, hardwood, carpet, etc. - rate condition observed.

Walls

?????Enter material type - plaster, drywall, paneled etc. - rate condition observed.

Trim/Finish

? Enter material type - wood, metal, vinyl - rate condition observed.

Bath Floor

? Enter material type - ceramic tile, vinyl, carpet - rate condition observed

Bath Wainscot

? Enter material type that protects walls from moisture - ceramic tile, fiberglass, etc. - rate condition observed.

Car Storage

Field

Protocol

None

* If the property does not have a garage, carport or driveway, mark "NONE".

Driveway # of Cars

* If applicable, mark this box and enter the number of cars that can be parked. A single lane driveway is considered to be a one-car driveway. It would be considered a two car driveway if either car can be moved without disturbing the other.

Driveway Surface

* Enter surface type: concrete, gravel, macadam, etc., if none so state.

Garage # of Cars

* Enter the number of cars the structure can accommodate.

Carport # of Cars

* Enter the number of cars the structure can accommodate.

Garage/Carport Type

* If there is a garage, designate whether it is "Attached", "Detached" or "Built-in" and Enter an "X" in the box(es) indicating the style "Att.", "Det.", "Built-in"

Appliances

Make an entry [X] in the boxes to indicate that these items exist. An entry in a box means that the item was considered part of the real estate and is included in the value. If an item is personal property, put a "P" in the box and do not include it in the opinion of value. Treat non-functioning equipment as existing, but as deferred maintenance in the valuation process.

Field

Protocol

Refrigerator

Enter "X" if this item exists. Enter "P" if personal property.

Range/Oven

Enter "X" if this item exists. Enter "P" if personal property.

Dishwasher

Enter "X" if this item exists. Enter "P" if personal property.

Disposal

Enter "X" if this item exists. Enter "P" if personal property.

Fan/Hood

Enter "X" if this item exists. Enter "P" if personal property.

Microwave

Enter "X" if this item exists. Enter "P" if personal property.

Washer/Dryer

Enter "X" if this item exists. Enter "P" if personal property.

Other

Enter "X" for existing item not listed above and describe. Do not include personalty.

Gross Living Area

Room design and count should reflect local custom. A dining area built as an L-shape off the kitchen may or may not be considered a room depending on the size.

To determine whether one or two rooms should be counted, hypothetically insert a wall to separate the two areas that have been built as one: if the residents can use the resulting two rooms with the same or more utility without increased inconvenience, count the room as two.

If the hypothetical wall would result in a lack of utility and increased inconvenience, count the room as one. The room count typically includes a living room (LR), dining room (DR), kitchen (KT), den (DN), recreation room (REC) and one or more bedrooms (BR). Typically, the foyer, bath and laundry room are not counted as rooms. A room is a livable area with a specific use.

Room Count and Gross Living Area

Field

Protocol

Finished area above grade contains

? To complete this section, enter the total number of above grade rooms, the total number of bedrooms above grade, and the total number of bathrooms above grade. Do not include foyers, basement finished rooms or unfinished attic space.

* Calculate square footage by using exterior dimensions.

* Enter the total square footage of the gross living area above grade.

Narrative Comments Section

The completion of this section is critical to the opinion of market value. The appraiser must discuss all adverse conditions and observed physical and functional deficiencies noted. If necessary, use the Additional Comments section of the form report, or an addendum, for additional discussion or description.

Field

Protocol

Additional Features

? Use this space to describe special energy efficient features such as solar energy or geothermal systems and/or to further describe the additional features,

? Please elaborate on any special or unusual aspects of items, e.g. gas fireplace or wood burning fireplace, 16' X 32' inground pool, etc. Condition of the property (including needed repairs, deterioration, renovations, remodeling, etc.)

? Describe any physical deterioration and/or functional or external depreciation noted in or on the property.

? Provide a conclusion as to the overall condition of the improvements that is supported by the previous descriptive sections.

* Describe needed repairs for property to meet FHA's MPR or MPS.

Physical deficiencies or adverse conditions

* Enter an "X " in the applicable box indicating whether or not there are any physical deficiencies or adverse conditions that affect the livability, soundness, or structural integrity of the property. If the response is "No", no explanation is required or needed. However, if the response is "Yes", an explanation is required and, if necessary, condition the appraisal on the "repair or alteration of the condition" or a "required inspection" by appropriately qualified individuals or entities, which may include professional engineers, tradespersons, HUD Fee Inspectors.

Lead-Based Paint Hazard

* If the home was built before 1978, this may indicate a lead paint hazard. For all FHA insured properties, correction is required to all defective paint in or on structures and/or property improvements built before January 1, 1978 in accordance with 24 CFR Part 35.

Physical deficiencies or adverse conditions

Lead-Based Paint Hazard

* Observe all interior and exterior surfaces, such as walls, stairs, deck porch, railing, windows or doors for defective (chipping, flaking or peeling) paint. (Exterior surfaces include surfaces on fences, detached garages, storage sheds and other outbuildings and appurtenant structures.). Note any areas affected (be specific) and condition the appraisal on their repair.

Property conformity

* Enter an "X " in the applicable box indicating whether or not the subject generally conforms to the neighborhood (functional utility, style, condition, use, construction, etc.). If the response is "Yes", no explanation is required or needed. However, if the response is "No", an explanation is required.

Section 6 - Sales Comparison Analysis

Comparable Data Pool

The appraiser is required to report the number of comparable properties currently offered for sale, as of the effective date of the appraisal, and the number of comparable sales in the subject neighborhood, within 12 months of the effective date of the appraisal, in this section. Unlike the neighborhood price data, which includes all sales, this section focuses only on those properties that are comparable to the subject, not the universe of sales.

If there was difficulty in locating comparable properties, i.e. the subject is a "rambler" or "rancher" and one or more of the comparable properties was a "split level" or "split foyer", etc., then for purposes of this section, all such properties in the subject's neighborhood are to be treated as comparable and counted.

Field

Protocol

Comparable properties offered for sale

Enter the number of comparable properties currently offered for sale, including those under contract, within the subject neighborhood together with the price range.

Comparable sales

Enter the number of comparable sales that occurred within the 12-month period preceding the effective date of the appraisal, and within the subject neighborhood, together with the price range.

Enter factual data in each field or line.

Field

Protocol

Address

? Enter the address that can be used to locate each property. Enter community, if needed, to identify property. For rural properties, list location by road name, nearest intersection and/or side road.

Proximity to Subject

? Enter proximity in straight-line distance and direction. For example, "1.5 miles NE" or "3 blocks south". If comparable distance from the subject is more than a generally accepted distance, or located outside the defined neighborhood boundaries, be sure to explain why the sale is applicable in the "Summary of Sales Comparison Approach" section.

Sale Price

? Enter the purchase price (total paid) for the subject and each of the comparable sales. This means the closed or settled price of the comparable sale.

* If the appraisal involves a refinance of the subject, enter "Refi" as the subject's sale price.

Sale Price / Gross Liv. Area

? Enter price per square foot for the above grade living area for the subject, if a purchase transaction, and each comparable sale.

Data Source(s)

* Enter data source(s) used for sales and property information.

Verification Source(s)

* Enter verification source(s), the document or party from which the additional proof was obtained. MLS by itself is not considered a verification source.

* Contacting someone with first-hand knowledge of the transaction (agent, broker, buyer, seller, etc.), especially where it involves confirmation of seller concessions, is the preferred method of verification.

* A single source may be used if the quality of data is such that sales data are confirmed and verified by settled transactions. Information provided should permit the reader of the report to locate the data from the sources cited.

Verification Source(s)

* Do not use, as market data, sales that are not verified and adjusted to reflect the terms and conditions of sale.

Value Adjustments

Adjustments are made to the price of the sale properties for price-influencing dissimilarities between each sale and the subject property. Not all dissimilarities require adjustment because not all dissimilarities achieve price differentials in the market. All adjustments must be extracted from and supported by the actions of the market.

For each adjustment item, enter the description of the adjustment and whether it is an upward or downward adjustment. Do not make an adjustment unless it has a material effect on value.

Be careful that adjustments are reasonable and not excessive. If a property is overvalued, there is a high probability that the reason can be traced to an excessive adjustment made in one or more of the areas above the room count line. Make adjustments only if the dissimilarity has a noticeable effect on the value. Small differences do not usually require adjustments.

Field

Protocol

Sales or Financing Concessions

* Report the type of financing such as Conventional, FHA or VA, etc.

* Report the type and amount of sales concession for each comparable sale listed. If no concessions exist, the appraiser must note "none."

* The appraiser is required to make market-based adjustments to the comparable sales for any sales or financing concessions that may have affected the sales price.

* The adjustment for such affected comparable sales must reflect the difference between the sales price with the sales concessions and what the property would have sold for without the concessions.

Date of Sale / Time

? State month and year of settlement. Showing the contract date and settled date is also acceptable.

* Time adjustments, if any, must be supported by the market and consistent with the neighborhood market conditions noted. If this is the case, show both the contract date and settled date as any time adjustment should be calculated using the contract date (meeting of the minds) rather than the settled date. Explanation is required for any time adjustments.

Location

* Enter the name of the subdivision or PUD. If none is applicable enter the neighborhood name that is commonly used to refer to the property's location or,

* Location adjustments may be warranted for positive or negative factors that influence sales price such as a busy street versus a quiet street rather than using the name of the community or subdivision.

* Explain any adjustments made in this area.

Leasehold / Fee Simple

? State whether the property was sold as Fee Simple or as a Leasehold Estate. An adjustment is required if the estate differs from the rights appraised for the subject property.

Site

? Enter the site size in square feet or acreage. Make adjustments only for measurable differences.

Small differences in lot sizes do not usually call for an adjustment if the size is typical.

? If necessary, consider the possibility of excess or surplus land.

View

? Describe the view from the site, i.e. similar homes, commercial area, water view, scenic view, etc.

Such terms as "Average" or "Good" are only to be used as adjuncts, i.e. "Residential/Average", "Water view/Good".

* Make adjustments only if the view is superior or inferior to the subject. If the subject has a superior view and adjustments are made, a photograph of the view amenity is recommended; likewise for an inferior view.

Design (Style)

? Enter the style according to a description used by local custom. Be consistent with improvement description.

Quality of Construction

? Enter "Good", "Average", "Fair", etc. using the quality rating from your cost service subscription or provider.

* Adjustments may also be warranted for interior construction quality and should be explained. For example, the second floor of a 1-1/2 story home finished with lower grade materials and finish compared to first floor.

Actual Age

? Enter only the actual age of the subject and each comparable sale.

Condition

? Enter the condition of the subject and comparable sales.

* Ratings to be used are: "New", "Good", "Average", "Fair" and "Poor" or a combination if more accurate.

? Consider required repairs or alterations, to the subject, completed when determining the need for adjustments to the comparable sales.

Above Grade Room Count

? Enter room count, consistent with the description of improvements on the front of the appraisal form.

Up to three adjustments may be entered:

* The first line is for bathroom count differences. A deficiency or surplus in the number of baths should be adjusted first.

* The second line adjustment is for room count.

* The third is for a difference in square footage.

? Explain any comparable property that has an adjustment in both square feet and room count.

Gross Living Area

? Enter the total square footage of the above grade living areas.

* Adjust for market recognized differences where warranted.

Basement & Finished Rooms Below Grade

? Provide total square footage of basement area and/or enter percentage of basement in relation to first floor area.

? Enter the type of rooms below grade: bedroom, recreation room, laundry, full bath, etc.

? Explain any special features or finishes in the "Summary of Sales Comparison Approach."

* If no basement, enter none or "N/A"

Functional Utility

? Enter "Average", "Superior" or "Inferior" as a total of the items rated in the Improvement Analysis compared to the subject. Use the "Summary of Sales Comparison Approach" to explain differences.

? Adjust for functional obsolescence observed in the subject, and not found in the comparables.

* Floor plan of the subject is required when functional obsolescence is attributable to layout or poor floor plan.

Heating / Cooling

? Enter type of heating and cooling systems, e.g. Gas FWA C/Air.

* Any adjustment for differences in heating and cooling systems should be based on market expectations.

Energy Efficient Items

? Describe energy efficient items: storm windows and doors, solar installations, replacement windows, etc. and enter an adjustment for differences if warranted. If none, so state.

Garage / Carport

?????Enter description of garage/carport. Calculate adjustments in accordance with market acceptance of carport value versus garage and size (one car, two cars, etc.).

Porch, Patio, Deck

? Enter these features for the subject and comparable sales if they exist. Base any adjustments on local market expectations.

Blank Lines

? Three blank lines are provided for the appraiser's use to describe additional amenities, features or individual characteristics not listed or addressed elsewhere in the sales grid, e.g. woodstove, fireplace, fencing, pool or other.

* Enter appropriate adjustments. For example, a pool located in an area that expects pools might bring a dollar premium in comparison to a comparable without a pool.

Net Adjusted (Total)

? Mark either [+] or [-] box to indicate if the total net adjustments will increase or decrease the value and note by how much. If any adjustment is excessive, review the comparable sales to determine if the best ones were selected. If the total adjustments appear excessive in relation to the sale price; the appraiser should reexamine the comparability of that sale.

? Explain any adjustment that appears to be excessive.

Adjusted Sale Price of Comparables

? Total all of the adjustments and add them to or subtract them from the sales price of each comparable. Generally, adjustments should not exceed 10% for line items, 15% for net adjustments and 25% for gross adjustments. If any adjustments exceed stated guidelines an explanation must be provided including reasons for not using more similar comparable sales.

Research sale or transfer history of subject & comps

* Enter an "X " in the applicable box indicating whether you "did" or "did not" research the sale or transfer history of the subject property and comparable sales. If not, provide explanation. Research prior sales or transfers of subject property

* Enter an "X " in the applicable box indicating whether your research "did" or "did not" reveal any prior sales or transfers of the subject property for the three years prior to the effective date of this appraisal.

Data Source(s)

* Enter data source(s) used for sales and transfer information.

* Appraisers are to be familiar with the data source(s), e.g. how the data is gathered and how often it is updated

Research prior sales or transfers of comparable sales

* Enter an "X " in the applicable box indicating whether your research "did" or "did not" reveal any prior sales or transfers of the comparable sales for the year prior to the date of sale of the comparable sale.

Data Source(s)

* Enter data source(s) used for sales and transfer information. Two sources are recommended for researching prior sales and transfers, local MLS and local public records at a minimum.

* Appraisers should be familiar with the data source(s), e.g. how the data is gathered and how often it is updated.

Report the results of the research and analysis of the prior sale or transfer history of the subject property and comparable sales (report additional prior sales in the "Additional Comments" section or an addendum).

Field

Protocol

Date of Prior Sale / Transfer

* Report the date(s) of prior sale(s) or transfer(s) of the subject that occurred within three years of the effective date of the appraisal.

* Report the date(s) of prior sale(s) or transfer(s) of each comparable sale for the year prior to the date of the comparable sale.

Price of Prior Sale /

Transfer

* Report the price of the prior sale(s) or transfer(s) of the subject that occurred within three years of the effective date of the appraisal.

* Report the price of the prior sale(s) or transfer(s) of each comparable for the year prior to the date of the comparable sale.

Data Source(s)

* Identify data source(s) used.

Effective Date of Data Source(s)

* Enter the date the data was published or updated by the source. For example, the local MLS may update their database multiple times during the week or month whereas property transfers recorded at the local land records office may take six or eight weeks after settlement. The property transfer records may have an effective date that is eight weeks earlier than the appraisal date and the MLS data is within one week of the appraisal date.

Narrative Comments

Field

Protocol

Analysis of prior sale or transfer history of subject and comparable sales

* Provide analysis of prior sale or transfer history of the subject and comparable sales.

* Analysis may address changes in property conditions between sale dates or verifying if prior sale was an arm's-length transaction.

Narrative Comments

Field

Protocol

Summary of Sales Comparison Approach

* Explain comparable selection and any necessary explanation of adjustments.

* Explain any adjustments exceeding guidelines.

* Explain which comparable sale or sales is/are given most weight or consideration and why.

Indicated Value by Sales Comparison Approach

* Enter the Indicated Value

Section 7 - Reconciliation

The appraiser should consider all appropriate approaches to value and all information relevant to the subject property and the market conditions in the opinion of market value.

If there is insufficient space in the reconciliation section to list and describe any "repairs, alterations or required inspections" noted, then the appraiser is instructed to insert a reference in the reconciliation

section "see Additional Comments section on the next page" and list and describe the items under the heading "Repairs, Alterations, Required Inspections". If necessary, due to space limitations, use an addendum with the same heading.

Field

Protocol

Indicated Value by:

* Enter the Indicated Value for each of the approaches to value developed. If the approach was not developed, enter "ND or "Not Dev" for not developed.

* Reconcile the three approaches to value with a brief description of the validity of each approach with respect to the appraisal assignment.

This appraisal is made

Field

Protocol

Mark this box

"as is"

when:

* There is/are no repair(s), alteration(s) or required inspection condition(s) noted.

* Establishing the "as is" value for a regular 203(k) when needed.

* The property is ineligible for FHA financing and is being rejected.

This appraisal is made

Field

Protocol

Mark this box

"per plans & specs"

when the appraisal involves:

* Proposed construction, or

* Under construction, less than 90% complete, or a

* 203(k) with a Plan Review and Specification of Repairs prepared by a 203(k) Consultant.

This appraisal is made

Field

Protocol

Mark this box

"subject to repairs or alterations"

when the appraisal involves existing housing, or new construction more than 90% complete with only buyer preference items remaining (floor coverings, appliances, landscaping packages (soil must be stabilized to prevent erosion)), requiring repairs or alterations to:

* Protect the health and safety of the occupants

* Protect the security of the property

* Correct physical deficiencies or conditions affecting structural integrity

* Complete buyer preference items for new homes, or to

* Complete repairs/improvements noted in work order or contractor estimates for the Streamline K

* Meet FHA Minimum Property Requirements

The appraiser must indicate the extent of repairs and note this in the appropriate section of the appraisal, or in the "additional comments" section, or in an addendum, under the heading of "Reconciliation – Required Repairs" listing the repairs noted together with an estimated cost to cure.

This appraisal is made

Field

Protocol

Mark this box

"subject to a required inspection"

when the appraisal calls for a required inspection to:

- * Certify the condition and/or status of a mechanical or structural element of the property
- * Protect the health and safety of the occupants
- * Protect the security of the property
- * Meet FHA Minimum Property Requirements or Minimum Property Standards

The appraiser must indicate the reasoning for any required inspections and note this in the appropriate section of the appraisal, or in the "additional comments" section, or in an addendum, under the heading of "Reconciliation - Required Inspection " listing the required inspections.

The value "subject to completion per plans and specifications", "subject to the following repairs or alterations", or "subject to the following required inspection" must be consistent with the subject property condition(s) described.

Opinion of Market Value

- * Enter the opinion of Market Value

Final Reconciliation

? This entry should contain the appraiser's reasoning for arriving at the final value.

Date of Value

? Enter the date when the property was inspected.

More than one box may be marked in the reconciliation section depending on the assignment and property conditions.

Section 8 - Additional Comments

These comment lines provide additional space for the appraiser to fully describe any item, area or condition where the commentary exceeds the space provided in other sections of the report. It is recommended that any information carried forward to the additional comments section, or an addendum if needed, follow the sequence of the form with a proper heading identifying said section.

For example, the neighborhood "market conditions" comments exceed the space provided on the form. In that case, on page one in neighborhood market conditions enter "See additional comments", in the "additional comments" section enter the heading "Neighborhood Market Conditions" and provide the narrative in this section.

Follow the same procedure for any section of the report where commentary exceeds space provided. This will provide the reader with the proper identification and linkage of additional comments together with a logical flow of information in a standardized reporting format.

Section 9 - Cost Approach

If the subject property is new construction (less than one year old), or the Cost Approach is recognized in the market as a basis for pricing, the appraiser may complete the Cost Approach; however, it is not

required for an FHA appraisal. If, however, the subject is a unique property, has specialized improvements, is manufactured housing, or the client requests the Cost Approach be completed, then the Cost Approach is required and must be completed. The square foot method is to be used.

* State the Remaining Economic Life as a single number or as a range. This line must be completed for every FHA appraisal whether or not the cost approach is completed. An explanation is required if the remaining economic life is less than 30 years.

Cost Approach To Value

Provide adequate information for the lender/client to replicate the below cost figures and calculations.

Field

Protocol

Support for opinion of site value

* Provide a summary of the comparable land sales or other methods (abstraction, allocation, land residual, extraction) of estimating site value in support of the opinion of site value.

Reproduction or Replacement Cost

* Mark the box indicating which cost estimating method was used

* Reproduction Cost - exact duplicate with all deficiencies and obsolescence

* Replacement Cost - cost at current prices with equivalent utility.

Source of Cost Data

* Provide the name of the cost service and reference page numbers of cost tables or factors. Reviewer or reader must be able to replicate.

Quality Rating

* Enter the quality rating of the cost tables or factors referenced.

Effective Date

* Enter the edition and date of latest updates referenced.

Comments

* Describe how physical depreciation was calculated

* Describe functional or external obsolescence,

* Enter gross living area calculations or refer to property sketch.

Economic Life

* Enter remaining economic life of improvements (required for all FHA appraisals).

Provide adequate information for the lender/client to replicate the below cost figures and calculations.

Field

Protocol

Opinion of Site Value

* Enter the Opinion Of Site Value

Dwelling Sq. Ft. @ \$

* Enter the GLA, multiply it by the square foot factor - enter result.

Basement Sq. Ft. @ \$

* Enter basement square feet, multiply it by square foot factor – enter result.

Blank Line

* Use this line for lump sum adjustments for plumbing fixtures, dormers, fireplaces, built-in appliances, pools, etc. Add together - enter the sum.

Gar/Crprt Sq. Ft @ \$

* Enter the car storage square feet, multiply it by square foot factor – enter result.

Total Cost New

* Add the results of the first five lines together - enter the sum.

Less Depreciation

* Enter the amount of estimated depreciation as a specific dollar amount, as a percentage or as a combination of both. Entries made in either functional or external depreciation require explanation in the

comments section. Add together all forms of depreciation - enter the sum and deduct this total from the total cost new.

Depreciated Cost

* Enter the difference from the total cost new less depreciation.

"As-is" Value of Site Improvements

* Enter the "as-is" value of site improvements

Blank Line

* Enter marketing costs here; generally averages 6%. Also, if applicable, identify and include impact fees.

Indicated Value

* Add together depreciated cost of improvements, "as-is" value of site improvements, marketing expense and/or impact fees - enter the total.

Section 10 - Income Approach

In a single-family residential property, the Income Approach is generally not recognized as a basis for buying by the market. The approach typically provides minimal applicability in the opinion of market value. Therefore, the Income Approach is not required for FHA appraisals completed on the Uniform Residential Appraisal Report, Fannie Mae Form 1004.

Income Approach To Value (not required for FHA appraisals)

Field

Protocol

Income Approach

? Enter "N/A" in each blank field in this section of the report.

Section 11 - PUD Information

A PUD is a project that includes common property and improvements owned and maintained by an owners' association for the use and benefit of the individual units in the subdivision. If not applicable, leave blank.

Project Information for PUDs (if applicable)

Field

Protocol

Developer/Builder in
control of HOA

? Enter an "X" in the box indicating whether or not the developer/builder is in control of the Home Owners' Association (HOA).

Unit Type(s)

* Enter an "X" in the box indicating unit type, Detached or Attached.

Provide the following information for PUDs only if the developer is in control of the HOA and the subject property is an attached dwelling unit.

The information requested is self-explanatory. Appraisers may choose to answer the last question referencing common elements and recreational facilities in support of a location adjustment regardless of dwelling style.

Field

Protocol

Legal name of project

Total number of phasesTotal number of units

Total number of units sold

Total units rented
Total units for sale
Data source(s)

* Provide source(s) of information, e.g. HOA board, management company, etc.

Was the project created by the conversion of an existing building(s) into a PUD? If Yes, date of conversion. Does the project contain any multi-dwelling units? Yes NoData

source(s) Are the units, common elements, and recreation facilities complete? Yes No

If no, describe the status of completion.

Describe common elements and recreational facilities.

D-2 Manufactured Home Appraisal Report [<TOP>](#)

This section provides specific instructions for completing the Manufactured Home Appraisal Report (Fannie Mae Form 1004C March 2005).

This report form is designed to report an appraisal of a one-unit manufactured home; including a unit in a planned unit development (PUD), based on an interior and exterior inspection of the subject property. This form is not designed to report an appraisal of a conventionally constructed "stick" or "site" built home or a unit in a condominium or cooperative project. Manufactured homes within a condominium regime or a cooperative project are not eligible as collateral for a FHA-insured loan.

A manufactured home is defined as a structure that is transportable in one or more sections. In the traveling mode, the home is eight feet or more in width and forty feet or more in length and is built on a permanent chassis and designed to be used as a dwelling when connected to the required utilities, which includes the plumbing, heating, air-conditioning and electrical systems contained therein. A manufactured home is designed and constructed to the Federal Manufactured Home Construction and Safety Standards (MHCSS) as evidenced by an affixed certification label. Manufactured homes may also be referred to as mobile homes, sectionals, multi-sectionals, double-wides, triple-wides or single wides. Modular housing is built to the local/state codes and is not to be considered manufactured housing. When erected on site, to be eligible for FHA insurance the manufactured home is:

- * Built on or after June 15, 1976 based on MHCSS,
- * At least 400 square feet in gross living area,
- * Built and remains on a permanent chassis,
- * Designed to be used as a dwelling with a permanent foundation which is designed and constructed to HUD/FHA criteria and,
- * Have a HUD Certification Label/Seal affixed to the exterior of the home.

Appraisers are reminded to pay particular attention to Appraiser's Certifications #8 and #11 of the Manufactured Home Appraisal Report and the Competency Rule of USPAP which addresses an appraiser's familiarity with a specific property type.

Section 1 - Subject

This section provides the factual data to identify the property and the parties to the appraisal process. The *FHA case number together with *borrower and/or *property information will be supplied by the lender/client who engages the appraiser.

Field

Protocol

*File Number

? Insert the FHA Case Number at the top right corner of the page.

* The FHA appraisal may not be transmitted to the lender without a case number.

***Property Address**

? Enter the property street number and name, city, state and zip code for the property. A post office box number is not acceptable. Enter the nearest intersection if a house number is not available.

***Borrower**

* Enter the name of the borrower/mortgagor.

Owner of Public Record

* Enter the name of the owner as listed in public records. If the seller is not the owner of public record the appraiser must explain.

County

* Enter the name of the county in which the property is located. It further provides locational parameters. If not applicable enter "N/A".

Legal Description

? Enter the legal description of the property. The four types of legal descriptions are: lot and block system, geodetic survey, government survey system and metes and bounds system. If the space provided is insufficient, enter this information with the heading "Legal Description" in the "Additional Comments" section of the form report or attach this information as an addendum.

Assessor's Parcel #

* Enter the parcel number assigned by the local tax assessor. For those areas that do not have an assessor's parcel number, enter the tax identification number.

Tax Year

* Enter the current tax year used by the locale, e.g. fiscal year or actual year.

R. E. Taxes \$

* Enter the dollar amount of the annual real estate taxes, including all relevant taxes (school district tax, fire district tax, etc.). Manufactured homes must be taxed as real estate to be eligible for Title II FHA insurance.

Neighborhood Name

* Enter the name of the subdivision, if applicable, or the commonly known local neighborhood designation. If the subject property is in a planned unit development or manufactured housing park, provide the name of the development.

Map Reference

* Enter location map reference, page number and coordinates, from source used. This reference should relate to the location maps most commonly used in the locale.

Census Tract

* Enter the census tract number. The census tract number must be provided.

* Census tract numbers have four digits and may have a two digit decimal suffix. Where the basic census tract number is less than four digits, the Census Bureau includes leading zeros except when displaying numbers on maps or printed reports. To uniquely identify a census tract, a two-digit state code and three-digit county code precede the four-or six-digit census tract number. The Census Bureau has an internet resource guide for locating census information. It can be found at URL: www.census.gov

Occupant

* Mark the box signifying the occupancy status at the time of the appraisal.

If vacant, the appraiser should note in the "Improvements" section under "condition of property" whether the utilities were on or off at the time of the appraisal. If off, condition the appraisal on a satisfactory re-inspection that the utility that was off at the time of the appraisal does not require alteration, repair or further inspection.

Special Assessments \$

* Report the dollar amount of special assessments for the subject property, if any, and provide a brief explanation for the assessment. Special assessments can include municipal bond debt for off-site improvements. Larger than typical special assessments may affect marketability. If not applicable enter "N/A".

PUD HOA\$

? Enter the dollar amount of the HOA fee and mark the box indicating if the fees are paid "per year" or "per month".

Property Rights Appraised

? Mark the appropriate box indicating the property rights appraised for the subject property as of the date of the appraisal. "Other" includes Land Trust.

Assignment Type

* Mark the appropriate box indicating the assignment type.

Lender/Client

Address

? Enter the name of the lender/client who ordered and will receive the appraisal report. After the client's name add "its successors or assigns".

* The use of the appraisal is to support FHA's decision to provide mortgage insurance on the real property that is the subject of the appraisal; therefore, intended users include the lender/client and FHA.

* Enter the lender/client's address. Currently offered for sale or offered for sale in last 12 months.

* The appraiser's certification states in part "I have researched, verified, analyzed and reported on any current agreement of sale of the subject property, any offering for sale of the subject property in the twelve months prior to the effect date of the appraisal..."

* Mark the appropriate box indicating whether the subject is currently offered for sale or has been offered for sale in the 12-month period prior to the effective date of the appraisal. If there are multiple actions, report each instance. Research may reveal an expired or withdrawn listing. The prior listing may provide a good indication of the upper limit of value. Report data source(s) used, offering price(s), and date(s)

* Complete this field regardless of whether the property is currently offered for sale or has been for sale in the 12 months preceding the date of the appraisal.

* Identify source(s) used, price(s) and date(s) of current or prior listings.

Section 2 - Contract

This section must be completed when the appraisal assignment involves a purchase transaction, otherwise enter "N/A" for not applicable. FHA requires that the appraiser be provided with a complete copy of the ratified sales contract, including all addenda, for the subject property. It provides the agreed-on contract price (accepted offer), date of sale, and all financial terms implicit in the offer. If unable to obtain this information, the appraiser is to state what efforts were made to obtain it.

Field

Protocol

Analyze Contract of Sale

* Explain the results of the analysis (terms and conditions) of the contract of sale or why the analysis was not performed.

* The analysis may include a reference to the number of pages contained in the contract for sale provided.

* The analysis should include a description of any non-realty items included in the contract

Contract Price \$

? Enter the final agreed upon contract price? for purchase transaction.

* If the manufactured home is new construction, does the contract price include: all delivery, installation and setup costs.

Date of Contract

? Enter the date of the contract. This is the date when all parties have agreed to the terms of, and signed the contract.

Is The Property Seller The Owner of Public Record

Data Source(s)

?????Mark the appropriate box indicating whether or not the seller is the owner of public record. The appraiser is instructed to contact the lender/client if the seller is someone other than the owner of record. The property may not be eligible for FHA financing if it involves flipping (resale in less than 90 days). The lender will make a determination for any exceptions to FHA's Flipping Rule and advise the appraiser.

? Report where the information was obtained.

Sales Concessions Downpayment Assistance

* Mark the appropriate box indicating whether or not there is any financial assistance (loan charges, sales concessions, gift or down payment assistance, etc.) paid by any party on behalf of the borrower. If necessary, use the "Additional Comments" section of the appraisal reporting form or an addendum and enter the heading "Sales Concessions" completing the description.

* If yes, the appraiser is to report the total dollar amount and describe the items to be paid. If the sale involves personal property (e.g. above ground pool, lawn mower, furniture, etc.) it should be identified and excluded from the valuation.

Manufacturer's

Invoice

* Applies only to new construction (initial sale from manufacturer). Mark the appropriate box and explain the results of the analysis (terms and conditions) of the manufacturer's invoice or why the analysis was not performed.

* If the invoice is not available, the appraiser is to note the unavailability.

Retailer's Name

* Applies only to new construction (initial sale from manufacturer). Provide name of retailer or distributor who sold unit.

Section 3 - Neighborhood

This section should reflect the area surrounding the subject property. The appraiser must observe neighborhood characteristics and surrounding properties to make determinations that will be incorporated into the valuation of the subject property. In all instances, the appraiser must mark the appropriate box for each line in neighborhood characteristics and housing trends. Failure to note conditions that may adversely affect the value of the property is poor appraisal practice and violates the Uniform Standards of Professional Appraisal Practice.

NOTE: Race and the racial composition of the neighborhood are not appraisal factors.

Neighborhood Characteristics

Field

Protocol

Location

? Enter the type of area surrounding the subject property.

Urban - relates to a city

Suburban - relates to an area adjacent to a city

Rural - relates to the country or beyond the suburban area

Built-up

? Enter the built-up percentage - the percentage of available land that has been improved. Land such as a state park would not be considered available land.

Growth

? Enter the growth rate. If many lots are available, the growth rate may be rapid, stable or slow, but if the neighborhood is fully developed, select the "stable" box.

Manufactured Housing Trends

Field

Protocol

Property Values

? Mark the box describing the current trend in property values for manufactured housing in the community. Comparing manufactured housing units that have been sold and resold in recent years is an effective way to determine market trends. Appraisers who use this method, however, should make sure to factor in any improvements or changes made to the property between sales.

Manufactured Housing Trends

Field

Protocol

Property Values

* If the subject property is one of few manufactured homes in the neighborhood, indicate this scarcity in market conditions, identify the most predominant housing type within neighborhood and address trends in value for that identified type.

Demand/Supply

? Mark the appropriate demand/supply trend. To determine the equilibrium status of supply and demand in the neighborhood, compare the number of houses sold to the number of houses listed for sale in a recent time period. The similarity or difference between the number of houses sold and listed, not the absolute numbers, should determine the demand/supply level.

* If the subject property is one of few manufactured homes in the neighborhood, indicate this scarcity under market conditions, identify the most predominant housing type within neighborhood and address trends in demand/supply for that identified type.

Marketing Time

? Mark the appropriate marketing time - the typical length of time a property most similar to the subject property would have to stay on the market before being sold at a price near its market value.

Manufactured Housing

Price Age

? Indicate the low and high neighborhood prices and ages as well as the predominant value and age of manufactured housing. The high and low for both price and age should exclude the extreme. If the subject property is one of few manufactured homes in the neighborhood, indicate this paucity under market conditions, identify the most predominant housing type/style within neighborhood and address prices and ages for that identified type.

Present Land Use %

One-Unit, 2-4 Unit, Multi-Family, Commercial, Other

? Estimate each type of land usage in the neighborhood. If there is no land in the neighborhood with one of the designated classifications, enter a "0". If a portion of the land consists of parks or other unspecified classifications, enter the estimated percentages on the "Other" line and explain in the neighborhood description section.

Neighborhood Boundaries

? The appraiser must clearly define the boundaries - north, south, east and west - of the subject's neighborhood. Providing a description of neighborhood boundaries by physical features such as streets, rail lines, other man-made barriers or well defined natural barriers (i.e. rivers, lakes, etc.) details the make up and understanding regarding neighborhood composition.

Neighborhood Narrative

Neighborhood Description

? Discuss factors that would attract residents or cause them to reject the neighborhood. These are typical factors important to discuss:

- o Level of maintenance and condition of homes
- o Housing styles, ages, sizes, etc.
- o Land uses

Neighborhood Narrative

Neighborhood Description

- o Proximity to employment and amenities, including travel distance and time to local employment sources and community amenities
- o Employment stability, in terms of variety of employment opportunities and industries
- o Overall appeal of the neighborhood as compared to competitive neighborhoods in the same market
- o Convenience to shopping with respect to distance, time and required means of transportation
- o Convenience to schools in terms of the distance and time for travel to school Market Conditions (including support for the above conclusions)
- * Provide relevant information in support of conclusions relating to trends in property values, demand/supply and marketing time.
- * Provide a description of the prevalence and impact of sales and financing concessions and/or down payment assistance in the subject's market area.
- * Other areas of discussion may include days on market, list to sale price ratios, and/or financing availability.

Section 4 - Site

This information provides the description of the land underlying the subject property. Insert factual information on each of the lines provided and report the conclusions as directed. Consider all aspects of the physical description and reconcile them in the opinion of market value. This section of the appraisal requires the appraiser to consider any adverse site conditions or adverse external factors that may impact value.

Field

? Protocol

Dimensions

? List all dimensions of the site beginning with the frontage. If the shape of the site is irregular, show the boundary dimensions (85' X 150' X 195' X 250'), or attach a property survey, site plan or plat or legal description with the comment, "see attached." Do not list site area on the dimensions line.

Area

? Enter the site area in square feet or acres. This entry must be consistent with the dimensions provided in the "Dimensions" field.

Shape

? Describe the shape of the site, e.g. triangular, square, rectangular, irregular, flag lot.

View

? Briefly describe the view from the property (None is not an acceptable response).

* Identify a view with a significant positive or negative influence on the value.

* Photographs are recommended for any negative or positive view influences affecting value or marketability.

Specific Zoning Classification

? Enter the specific zoning classification used by the local municipality or jurisdiction, e.g., R-1

* If none exists enter "None Exists"

Zoning Description

* Describe what the specific classification means. Include a general statement describing what the zoning permits. For example: R-1 = Residential-Single Family

* If "None Exists" describe the prevalent use of sites in the neighborhood.

Field

? Protocol

Zoning Compliance

? Determine whether the current use is in compliance with the zoning ordinances. Mark the box indicating whether the use is Legal, Legal Non-Conforming (Grandfathered Use), No Zoning, or Illegal Use.

? If the existing property does not comply with all of the current zoning regulations (use, lot size, improvement size, off street parking, etc.) but is accepted by the local zoning authority, enter "Legal Non-Conforming" and provide a brief explanation.

* If the use is not legal, the property is not eligible for FHA mortgage insurance.

Highest and

Best Use

? Mark the appropriate box. This entry represents the highest and best use of the site, as improved, in relation to the neighborhood and current market conditions.

? If current use represents the highest and best use, mark "yes".

? If it does not, mark "no" and provide a detailed explanation.

Utilities

? Mark either "Public" or "Other." If "Other" is marked, describe.

Public utilities mean governmentally supplied and regulated. Public does not include any community systems sponsored, owned or operated by the developer or a private company not subject to government regulation or financial assistance.

? Note if there are mechanical chlorinators or water-flow that decreases noticeably while running simultaneous plumbing fixtures. ?????Visually inspect the septic system and its surrounding area. If there are obvious or readily observable signs of system failure, "require inspection" to ensure that the system is in proper working order.

Note: The appraiser shall indicate whether a public water or sewage disposal system is available to the site. If available, connection must be made to public or community water/sewage disposal system if connection costs are reasonable. The lender will determine whether connection is feasible.

Off-site Improvements-Type

? Briefly describe the off-site improvements under "Type" and mark Public or Private. For example: "Street-Asphalt; Public", "Alley-None"

? Public refers to an improvement dedicated to and accepted by a unit of government - not including Home Owner's Associations.

FEMA Special Flood Hazard Area

? FEMA (Federal Emergency Management Agency) is responsible for mapping flood hazard areas. If the property is within a Special Flood Hazard Area, mark "YES". Otherwise, mark "NO".

? Attach a copy of the flood map panel for properties located within an identified flood hazard area.

Note: To be eligible for FHA-insurance, the finished grade level beneath a manufactured home must be at or above the 100-year return frequency elevation. If the site supporting a manufactured home is within a FEMA designated flood hazard area, the lender should order a FEMA Elevation Certificate to determine whether the manufactured home qualifies for FHA-insurance.

Field

? Protocol

FEMA Flood Zone

? Enter the FEMA Zone designation. Only properties within Special Flood Hazard Areas, such as zones "A" a special flood hazard area and "V" a coastal area, require flood insurance. Zones "B" "C" and "X" do not.

FEMA Map # and FEMA Map Date

? Enter the FEMA Map number and map date. If it is not shown on any map, enter "Not Mapped." Are utilities and off site improvements typical for the market area?

* Mark the appropriate box indicating whether the utilities and off-site improvements are typical for the market area.

* If "No" is marked, explain why the utilities and/or off site improvement are not typical.

Is site size, shape and topography conforming?

* Mark the appropriate box indicating whether the site size, shape and topography are generally conforming to and acceptable in the market area.

* If "no" is marked, explain why and its impact on value and/or marketability.

Vehicular access

* Mark the appropriate box indicating whether there is adequate vehicular access to the subject property.

* If "no" is marked, provide explanation.

Street maintenance

* Mark the appropriate box indicating whether the street is properly maintained.

* If "no" is marked, describe the condition of the street, lack of an all weather surface and/or adequacy maintenance.

Any adverse site conditions or external factors

? Mark the appropriate box indicating whether there are any adverse site conditions or external factors (easements, encroachments, environmental conditions, land uses, etc.).

* If "No" is marked, no comment is necessary, if "Yes" is marked, a detailed explanation is required.

* Describe any adverse site conditions or adverse factors. Consider easements affecting the functional utility of the property in the conclusions of both the highest and best use and market value. For example, discuss adverse easements, encroachments, slide areas, illegal or non-conforming zoning use, etc. Consider surface, sub-surface and overhead easements.

* List any adverse environmental conditions, including hazardous wastes, toxic substances and others.

* Explain all deficiencies that do not require repair (extreme slope, etc.) and consider them in the opinion of value.

? Discuss the observations with direct relationship to value and consider them in the approaches to value.

Section 5 - HUD Data Plate

The Federal Manufactured Home Construction and Safety Standards, Part 24 of the Code of Federal Regulations (CFR) 3280, requires that "each manufactured home shall bear a data plate affixed in a permanent manner near the main electrical panel or other readily accessible or visible location." Typically, the HUD Data Plate is adjacent to the electric service panel, the utility room or within a cabinet in the kitchen. Over time, homeowners often remove this sheet and it is common for the data plate to be missing from a manufactured home.

Copies of the data plate are generally available only from the manufacturer of the home or the in-plant inspection agency responsible for inspecting the home prior to its shipment from the manufacturing plant. If the data plate is missing, locating a replacement or the specific data plate information from the manufacturer or in-plant inspection agency may be impractical or expensive. Some manufacturers are no longer in business or the in-plant inspection agency may no longer have the information.

The HUD Data Plate (Manufacturer's Data Plate) provides information on:

1. Name and address of the manufacturing plant where the home was constructed;
2. Serial number, model designation and date of manufacture (date the certification label was applied to the home).
3. Compliance statement;
4. List of certification label(s) number(s);
5. List of major factory installed equipment, and
6. Roof zone and wind zone maps designating the zones for which the home has been constructed.

The heating/cooling certification and insulation maps may be on the data plate, or may be in separate documentation provided with the home. The data plate is not required to include the heating and cooling certification. Manufacturers and in-plant inspection agencies are not required to maintain the heating and cooling certification information.

The Certification Label (aka HUD Seal) is a 2 inch by 4 inch aluminum plate, permanently attached to the home, located at one end of each section of the home, approximately one foot up from the floor and one foot in from the road side, or as near that location on a permanent part of the exterior of the home as practicable. This Certification Label is often referred to as the HUD Label, or the HUD Tag. Etched on the Certification Label is the Certification Label Number, also referred to as the HUD Label Number. Label numbers are not required to be sequential on multi-section homes.

Verifications of the Certification Label Numbers are available from the manufacturer, the in-plant inspection agency, and HUD, sometimes at-cost. Contacts for the in-plant inspection agencies are available on HUD's manufactured housing website. Information on requesting these verifications is available at the website for the manufactured housing program at <http://www.hud.gov/offices/hsg/sfh/mhs/mhslabels.cfm>.

Field

? Protocol

HUD Data Plate

? Mark the appropriate box to indicate if the Data Plate is attached. If the Data Plate is missing and/or the appraiser is unable to locate it, the appraiser only needs to report this fact and is not required to secure the

Data Plate information from another source.

Certification Label

(aka HUD Seal)

? To be eligible for FHA-insured financing, the manufactured home must have a HUD Certification Label affixed to the tail-light end of each transportable section.

* If the appraiser is unable to locate the HUD Certification Label (HUD Seal), the lender must be notified.

Manufacturer's Serial # or VIN #

?????Enter the manufacturer's serial number or VIN # which can be found on the HUD Data Plate. If the Data Plate is missing, the serial number is stamped on the foremost cross member of the supporting frame of the hitch-end of the manufactured home.

HUD Certification Label #(s)

* Enter the label #s for each section.

Field

? Protocol

Manufacturer's Name, Trade/Model, and date of Manufacture

? Provide the manufacturer's name, model name of the subject unit and date of manufacturer. This information can be found on the HUD Data Plate.

Wind, Roof Load and Thermal Zones

- * The HUD Data Plate contains wind, roof load and thermal zone maps which designate the zone for which the home was constructed. Mark the appropriate box.
- * Mark the appropriate box indicating whether the subject meets zone requirements for its location.
- * Marked "no" if the zone map indicates the manufactured home was constructed for a geographic area different from where the home is located, the appraiser should note and highlight this discrepancy.
- * Mark "no" if the Data Plate is missing. The appraiser should note: Date plate missing, unable to determine compliance with wind, roof load and thermal zones requirements.

Section 6 - Improvements

This section describes the subject improvements. Accurately report the conditions observed. Describe needed repairs, or the existence of any functional or external obsolescence. Enter factual information on each of the lines provided and report the conclusions. Consider all aspects of the physical description and reconcile them in the opinion of market value.

General Description

Field

Protocol

Units/Additions

? Mark the appropriate box. The Manufactured Home Appraisal Report is designed solely for the valuation of a one-unit manufactured home. The appraiser is to indicate if the original manufactured home (as delivered and installed) to the site has been altered or added on to by marking the box for additions.

of Stories

? Enter the number of stories above grade, including half stories. Do not include the basement.

Design (Style)

? Enter a brief description of the house design style using historical or contemporary fashion. For example: Cape Cod, bi-level, split level, split foyer, colonial, town house, etc. Do not use builder's model name. Avoid generic descriptions such as Traditional or Conventional.

of Sections

? Mark the appropriate box denoting the number of sections. Mark "Other" if subject made up of four or more sections.

Type

? Mark the box that identifies the type of dwelling, "Det." (Detached), "Att." (Attached), "S-Det." (Semi-Detached) or "End Unit" (End unit of a group of rowhouses or townhouses).

Stage of Construction

? Mark the box signifying the stage of construction, Existing, Proposed or New Construction (new construction would only apply to foundation).

Year Built

? If the manufactured home is less than one year old, include both the month and year completed.

? If it is over one year old, insert the year built.

Effective Age (Yrs)

? Enter the effective age of the improvements. A range is acceptable. The effective age reflects the condition of the property relative to similar competitive properties. The effective age may be greater than, less than or equal to the actual age.

? Note any significant difference between the actual and effective ages and explain in the "condition of property" comments section.

Attic - Enter the attic and observe the interior roofing for insulation, deficient materials, leaks or readily observable evidence of significant water damage, structural problems, previous fire damage, FRT sheathing, exposed and frayed wiring and adequate ventilation by vent, fan or window. If any of these

deficiencies exist, condition the appraisal on their repair and prepare the appraisal "subject to repairs" and/or "subject to inspection".

The attic must be entered, at a minimum, by head and shoulders, whether access is by pull-down stairway or scuttle. Size of the scuttle and accessibility of the attic dictate the level of entry.

Field

Protocol

None

Enter "X" if there is no attic.

Drop Stair

Enter "X" if this item exists.

Stairs

Enter "X" if this item exists.

Floor

Enter "X" if this item exists.

Scuttle

Enter "X" if this item exists.

Finished

Enter "X" if this item exists.

Heated

Enter "X" if the attic is heated.

Foundation

The appraiser is required to inspect the foundation and basement. The appraiser must address all visible deficiencies and may require a recommendation for an inspection. Consider deferred maintenance and physical deterioration in the valuation process.

Basement

Generally, may be partially or completely below grade (ground level). Do not count the basement in the finished gross living area at the grade level. The information provided must be consistent with the description in the Foundation section.

Foundation

Field

Protocol

Poured Concrete

* Mark this box if any part of the foundation system has a concrete slab.

Concrete Runners

* Mark this box if any part of the foundation system has concrete runners upon which the manufactured home rests in some fashion.

Block & Pier

?????Mark this box if the manufactured home is supported by concrete/masonry blocks constructed on free standing piers or by a continuous perimeter enclosure.

Other-Att. Description

* Mark this box if the foundation supporting the manufactured home does not fall under the above types and describe the foundation supporting the manufactured home.

Full Basement

* Mark this box if there is a full basement.

Partial Basement

* Mark this box if there is a partial basement.

* For a dirt basement floor, determine whether such a property is typical for the area and is readily marketable. If so, it is not required that a concrete basement floor be installed. Mechanical equipment, however, must be located on a concrete pad.

Basement Area Sq Ft

* Enter the square footage of the basement area using exterior dimensions.

Basement Finish %

* Enter the percentage of basement (figure above) that is finished.

Outside Entry/Exit

* Mark this box only if there is an outside entry/exit, otherwise leave blank.

* In there is an entry, make sure door is operable.

Sump Pump

? Mark this box only if there is a sump pump, otherwise leave blank.

Evidence of Infestation

* Mark this box if there is evidence of infestation, including the house and/or other structures within the legal boundaries of the property, otherwise leave blank.

? Examine the subject property for readily observable evidence of wood boring insects.

* Do not require a pest inspection based solely on the age of a property. Inspections are necessary whenever there is evidence of decay, pest infestation, suspicious damage or when it is customary to the area or required by state law.

Evidence of Dampness

* Basement or crawl space area must not have excessive dampness or ponding of water.

* If any of these inadequacies exist, condition the appraisal "subject to repairs" to correct the condition, or "subject to inspection" to determine the source of problem and corrective measures necessary by a qualified party.

Evidence of Settlement

?????Mark this box if there is evidence of settlement, otherwise leave blank.

?????Examine foundation for readily observable evidence of settlement.

* Hairline step-cracks are common, however, horizontal cracks, bulging walls or separation of sill plate from top of foundation wall are critical and require inspection.

Mechanical Systems

An appraiser must examine mechanical, plumbing and electrical systems of the subject property to ensure that they are in proper working order. This examination entails turning on the applicable systems and observing their performance. Electrical, plumbing and/or heating certifications may be called for by the appraiser when he/she cannot determine if one or all of these systems are working properly. An appraiser should not arbitrarily call for such certifications. However, they are still responsible for checking on the adequacy of these systems at the time of appraisal.

Heating and Cooling Systems

Field

Protocol

Heating

? Enter an "X" in the box indicating the type of heating system: FWA (forced warm air), HWBB (hot water baseboard), Radiant or "Other". If "Other" is marked, provide a brief description, e.g. EBB (for electric baseboard).

* Turn on the furnace/heating system to test functionality, weather permitting, and that no unusual noises are heard, no odors or smoke are emitted indicating a defective unit, etc. However, do not operate the systems if doing so may damage equipment or when outside temperatures will not allow system to operate.

* Note significant holes/deterioration on the unit.

* Determine whether there is an installed heat or cool-air source in each room by using the system's normal operating controls. It is not necessary to observe the uniformity of heat or cool-air to various rooms.

* Turn on the hot water to ensure that the water heater is operating appropriately.

Fuel

? Enter type of fuel used: coal, gas, oil, propane, electric, etc.

Cooling

* Enter an "X" in the box indicating the type of cooling system: Central Air Conditioning, Individual or Other. If "Other" is marked, provide a brief description, e.g. permanently affixed fans, zoned air-conditioning, etc.

* Turn on air conditioning system to test functionality, weather permitting, and that no unusual noises are heard, no odors or smoke are emitted indicating a defective unit, etc. However, do not operate the systems if doing so may damage equipment or when outside temperatures will not allow system to operate.

* Note significant holes/deterioration on the unit

Exterior Materials/Condition

Enter the types of Materials and rate the observed Condition of the Materials (Good, Average, Fair, and Poor). Make every effort to describe accurately and explain in detail "Fair" and "Poor" ratings and whether or not the item(s) described require repair, replacement or further inspection. The rating must relate to the habitability of the house given local standards (Photo documentation of property condition is always advisable).

Exterior Description

materials/condition

Field

Protocol

Skirting

* If the manufactured home features skirting placed between the bottom of the home and the grade of the supporting ground, indicate the material type of the skirting. Note that FHA requires a properly enclosed crawl space (if crawl area with no basement) with a continuous perimeter enclosure of a permanent foundation-type construction i.e., poured concrete, block, brick, stone, treated wood, etc.) and rate the observed condition.

* If the manufactured home has a crawl space and lacks a continuous perimeter enclosure of a permanent nature, note and highlight this absence. Note whether enclosed crawl area has adequate access and ventilation.

Exterior Walls

? Enter the material type: aluminum, vinyl or wood siding, brick veneer, stucco, stone, etc.

* If a combination of materials, show the predominant portion first and rate the observed condition.

Exterior Description

materials/condition

Field

Protocol

Roof Surface

* Enter the material type: composition shingle, asphalt shingle, wood, slate, clay tile, aluminum, built-up, etc. and rate the observed condition.

* View the roof from ground level to determine if the integrity of the roof is sufficient.

* Observe roof coverings, roof drainage systems, flashing, skylights, or chimneys for readily observable evidence of leakage or abnormal condensation on building components.

* Note any evidence of deterioration of roofing materials (missing tiles, shingles, flashing). Deteriorated roofing materials include those that are worn, cupped, or curled.

* If the roof is otherwise unobservable, look for telltale signs of roof problems on the interior, such as damage or water stains to the ceiling area of a room or closet.

* The appraiser must note in the appraisal that he/she could not adequately observe the entire roof area (state which area(s) were unobservable). Based on the information reported by the appraiser, the underwriter will determine whether or not a roofing inspection is required.

Gutters and Downspouts

? Enter the material type: galvanized, aluminum, plastic, vinyl, PVC, etc. and rate the condition observed.

Window Type

? Enter window type: Double Hung, Single Hung, Casement, Sliders, etc. and identify the window frame material: wood, aluminum, steel, vinyl, etc.

Rate the condition observed.

* Bedroom windows with security bars require a quick release mechanism for emergency egress. If not so equipped, condition the appraisal on a "required repair".

Storm Sash / Insulated

? Describe storm sash material or state if windows are double glazed, etc. or a combination of the two. Rate the condition observed. If none, so state.

Screens

* Describe style (full, half, none) and rate the condition observed.

Doors

* Describe exterior doors (type and material, i.e., wood, metal, fiberglass, etc.)

A brief description of an amenity may include its material type and/or size and/or dimensions.

Amenities

Field

Protocol

Woodstove #

* Enter "X" if this amenity exists and provide a specific number.

Fireplace(s) #

* Enter "X" if this amenity exists and provide a specific number

Fence

* Enter "X" if this amenity exists. Describe material/type in additional features

Patio/Deck

* Enter "X" if this amenity exists. Describe material/type in additional features

Porch

* Enter "X" if this amenity exists. Describe material/type in additional features

Pool

* Enter "X" if this amenity exists. Describe in additional features. Specify whether in-ground or above-ground. Above-ground pools are considered personal property and are not to be included in the value.

Other

* Enter "X" if this line is used to report another amenity or salient feature not listed above that has contributory value. Describe "Other" in additional features. Be sure to compare the subject and comparable sales in relation to that amenity or feature and make the appropriate adjustments.

Interior Materials/Condition

Enter the types of materials and rate the observed Condition of the Materials (Good, Average, Fair, and Poor) and whether or not the item(s) described require repair, replacement or further inspection. Make every effort to describe accurately and explain in detail "Fair" and "Poor" ratings. The rating must relate to the habitability of the house given local standards.

Interior

materials/condition

Field

Protocol

Floors

* Enter material type - tile, hardwood, carpet, etc.- and rate condition observed

Walls

?????Enter material type-plaster, drywall, paneled etc.- and rate condition observed

Trim/Finish

? Enter material type - wood, metal, vinyl, etc.- and rate condition observed

Bath Floor

? Enter material type-ceramic tile, vinyl, carpet,etc.- and rate condition observed

Bath Wainscot

? Enter material type that protects walls from moisture - ceramic tile, fiberglass, etc. - and rate condition observed.

Car Storage

Field

Protocol

None

* If the property does not have a garage, carport or driveway, mark "NONE".

Driveway # of Cars

* If applicable, mark this box and enter the number of cars that can be parked. A single lane driveway is considered to be a one-car driveway. It would be considered a two car driveway if either car can be moved without disturbing the other.

Driveway Surface

* Enter surface type: concrete, gravel, macadam, etc., if none so state.

Garage # of Cars

* Enter the number of cars the structure can accommodate.

Carport # of Cars

* Enter the number of cars the structure can accommodate.

Garage/Carport Type

* If there is a garage, designate whether it is "Attached", "Detached" or "Built-in" and Enter an "X" in the box(es) indicating the style "Att.", "Det.", "Built-in"

Appliances

Make an entry [X] in the boxes to indicate that these items exist. An entry in a box means that the item was considered part of the real estate and is included in the value. If an item is personal property, put a "P" in the box and do not include it in the opinion of value.

Field

Protocol

Refrigerator

Enter "X" if this item exists. Enter "P" if personal property.

Range/Oven

Enter "X" if this item exists. Enter "P" if personal property.

Dishwasher

Enter "X" if this item exists. Enter "P" if personal property.

Disposal

Enter "X" if this item exists. Enter "P" if personal property.

Fan/Hood

Enter "X" if this item exists. Enter "P" if personal property.

Microwave

Enter "X" if this item exists. Enter "P" if personal property.

Washer/Dryer

Enter "X" if this item exists. Enter "P" if personal property.

Other

Enter "X" for existing item not listed above and describe. Do not include personalty.

Gross Living Area

Room design and count should reflect local custom. A dining area built as an L-shape off the kitchen may or may not be considered a room depending on the size. To determine whether one or two rooms should be counted, hypothetically insert a wall to separate the two areas that have been built as one: if the residents can use the resulting two rooms with the same or more utility without increased inconvenience, count the room as two. If the hypothetical wall would result in a lack of utility and increased inconvenience, count the room as one. The room count typically includes a living room (LR), dining room (DR), kitchen (KT), den (DN), recreation room (REC) and one or more bedrooms (BR). Typically, the foyer, bath and laundry room are not counted as rooms. A room is a livable area with a specific use.

Note: To be eligible for FHA financing, a manufactured home must have a gross living area of no less than 400 square feet.

Room Count and Gross Living Area

Field

Protocol

Finished area above grade contains

? To complete this section, enter the total number of above grade rooms, the total number of bedrooms above grade, and the total number of bathrooms above grade. Do not include foyers, basement finished rooms or unfinished attic space.

* Enter the total square footage of the gross living area above grade.

Narrative Comments Section

The completion of this section is critical to the opinion of market value. The appraiser must discuss all adverse conditions and observed physical and functional deficiencies noted. If necessary, use the Additional Comments section of the form report, or an addendum, for additional discussion or description.

Field

Protocol

Additions or modifications

? Describe any additions or modifications made to the manufactured home since its initial placement on the site. Any subsequent additions or modifications should not take the home out of compliance with the Manufactured Home Construction and Safety Standards (MHCSS). If the appraiser suspects that an addition or modification to the home poses a risk to the structural integrity of the home, the appraiser is to notify the lender.

Installer's Name

Date Installed

Model Year

* If available, indicate the name of the person or company that installed the manufactured home, the date of installation and the model year of the manufactured home. If information not readily available, the appraiser is to note such.

Field

Protocol

Permanent Foundation System

* Mark the applicable box. To be eligible for a FHA-insured financing, the design of the permanent foundation must be in compliance with FHA criteria as evidenced by an engineer's certification verifying such compliance.

* The appraiser should indicate if a copy of the required engineer's certification of compliance of the design of the permanent foundation was provided.

Removal of towing hitch, wheels and axels

* Mark the appropriate box. The appraiser must inspect the underside of the manufactured home and determine if the towing hitch, running gear (wheels and axels) have been removed. If not removed, or unable to determine due to lack of access, the manufactured home is not eligible for FHA-insured financing and the lender must be notified.

Utility Connections

* Mark the appropriate box indicating whether the manufactured home is permanently connected to public water and sewer or well and septic and other utilities.

* If "no" is marked, the manufactured home is not eligible for FHA-insured financing and the appraiser must notify the lender.

Gross Living Area Acceptable to Market

* Mark the appropriate box indicating whether the living area of the manufactured home is in concert with market expectations for overall living size, room size and layout.

* If "no" is marked, an explanation is required. The analysis should reveal the living size and dimensions are not in keeping with market expectations for the neighborhood (substandard) and factor this deficiency in the opinion of value. If the gross living area of the manufactured home is less than 400 square feet, the home is not eligible for FHA-insured financing and the appraiser must notify the lender.

Additional Features

? Use this space to describe special energy efficient features such as solar energy or geothermal systems and/or to further describe the additional features,

? Please elaborate on any special or unusual aspects of items, e.g. gas fireplace or wood burning fireplace, 16' X 32' inground pool, etc.

Rate quality of construction

* Rate the quality of construction of the manufactured homes by marking the appropriate box and identify cost service used.

* Report the source of the rating determination, e.g. Nationally published cost services such as the N.A.D.A. Manufactured Housing Appraisal Guide or the Marshall & Swift Residential Cost Handbook Condition of the property (including needed repairs, deterioration, renovations, remodeling, etc.)

? Describe any physical deterioration and/or functional or external depreciation noted at the property.

? Provide a conclusion as to the overall condition of the improvements that is supported by the previous descriptive sections.

* Describe needed repairs.

Field

Protocol

Physical deficiencies or adverse conditions

* Enter an "X " in the applicable box indicating whether or not there are any physical deficiencies or adverse conditions that affect the livability, soundness, or structural integrity of the property. If the response is "No", no explanation is required or needed. However, if the response is "Yes", a full and detailed explanation is required and, if necessary, condition the appraisal on the "repair or alteration of the condition" or a "required inspection" by appropriately qualified individuals or entities, which may include professional engineers, tradespersons, HUD Fee Inspectors.

Lead-Based Paint Hazard

* If the manufactured home was built before 1978, this may indicate a lead paint hazard. For all FHA insured properties, correction is required to all defective paint in or on structures and/or property improvements built before January 1, 1978 in accordance with 24 CFR Part 35.

* Observe all interior and exterior surfaces, such as walls, stairs, deck porch, railing, windows or doors for defective (chipping, flaking or peeling) paint. (Exterior surfaces include surfaces on fences, detached garages, storage sheds and other outbuildings and appurtenant structures.). Note any areas affected (be specific) and condition the appraisal on their repair subject to the satisfaction of the condition.

Property conformity

* Enter an "X " in the applicable box indicating whether or not the subject generally conforms to the neighborhood (functional utility, style, condition, use, construction, etc.). If the response is "Yes", no explanation is required or needed. However, if the response is "No", an explanation is required.

Section 7 - Cost Approach

The appraiser is only required to complete the cost approach if the manufactured home is new construction (initial sale from manufacturer). If the manufactured home is over one year old and the retailer's invoice, stating the retail purchase price of the home, is available, a copy of the invoice should be appended to the appraisal report. If the manufactured home is new construction less than one year old but title has been re-conveyed after the initial sale or if the home is over a year old, the cost approach is not required by FHA. For cost estimates, the appraiser must rely upon a nationally published cost service such as the N.A.D.A. Manufactured Housing Appraisal Guide or the Marshall & Swift Residential Cost Handbook. The use of a nationally published cost service will enable a reader/reviewer of the appraisal to replicate the appraiser's estimate.

If the manufactured home is new construction (an initial sale from manufacturer) and the retail purchase price, including delivery, installation and set up costs, of the home is available, the appraiser may rely upon the retail purchase price and exclude reliance upon a cost service. An opinion of value of the supporting site is still required. A copy of the invoice stating the retail purchase price and all delivery, installation and set up costs must be appended to the appraisal report. The validity and reliability of the value of the manufactured home derived by the cost approach must be discussed in the reconciliation section.

State the Remaining Economic Life as a single number or as a range. This line must be completed for every FHA appraisal whether or not the cost approach is completed. An explanation is required if the remaining economic life is less than 30 years.

Cost Approach To Value

Provide adequate information for the lender/client to replicate the below cost figures and calculations.

Field

Protocol

Support for opinion of site value

* Provide a summary of the comparable land sales or other methods (abstraction, allocation, land residual, extraction) of estimating site value in support of the opinion of site value.

Reproduction or Replacement Cost

* Mark the box indicating which cost estimating method was used

* Reproduction Cost - exact duplicate with all deficiencies and obsolescence

* Replacement Cost - cost at current prices with equivalent utility.

Source of Cost Data

* Provide the name of the cost service and reference page numbers of cost tables or factors. Reviewer or reader must be able to replicate. If retail purchase price is available, append a copy of the retail purchase price invoice, including all delivery, installation and set up costs, to the appraisal report.

Effective Date of Cost data

* Enter the edition and date of latest updates referenced

Quality Rating

* Enter the quality rating of the manufactured home derived from the cost service.

Opinion of Site Value

* Enter the Opinion Of Site Value based on recent comparable land sales provided above

Cost Approach using Marshall & Swift

Field

Protocol

Section (width)

Marshall & Swift

* Determine how many sections (single wide = one section, double wide = two sections, etc) make up the subject manufactured home.

* Based upon the selected quality rating of the manufactured home, choose the corresponding page of square foot costs for that quality rating. Compute the GLA (Gross Living Area) for home (width multiplied by length) and multiply by appropriate rate per square foot from the square foot costs table.

* Make any square foot or lump sum adjustments to reflect value of items of home that are above and beyond those detailed basic description for the selected quality square foot costs.

Subtotal

* Enter the total of the selected quality rating per square foot times the GLA and any square foot and lump sum adjustments

Cost Multiplier

* Enter the appropriate cost multiplier factor, if applicable.

Modified Cost Multiplier Subtotal

* Multiply the Cost Multiplier times the subtotal of the square foot cost new
- enter result.

Physical Depreciation or Condition Modifier

* If applicable, enter the amount of estimated depreciation as a specific dollar amount.

Functional Obsolescence

* Enter the amount of estimated depreciation as a specific dollar amount.

Provide an explanation in the "comments section" if functional obsolescence is present and adjusted for.

External Obsolescence

* Enter the amount of estimated depreciation as a specific dollar amount.

Provide an explanation in the comments section if external obsolescence present and adjusted for.

Cost Approach using Marshall & Swift

Field

Protocol

Depreciated Modified Subtotal

(not shown on 1004C form)

* Add the total estimated physical, functional and external depreciation and subtract from the amount entered for Modified Cost Multiplier Subtotal Delivery, Installation and Setup

* If applicable, enter the deliver, installation and setup costs and add to the cost new. Note: Marshall and Swift includes delivery, installation and setup cost in the square foot.

Other Depreciated Site Improvements

* Enter the depreciated value of any site improvement.

Market Value of Subject Site

* Enter value site value from as provided above.

Indicated Value by the Cost Approach

* Add any additional delivery, installation and setup costs from above together with the depreciated value of site improvements and the market value of the supporting site for a final indication of value by the Cost Approach.

NOTE:

* To properly employ the Marshall & Swift Cost Guide, follow the Marshall & Swift instructions.

Economic Life

- * State Remaining Economic Life as a single number or as a range.

Cost Approach using N.A.D.A. Appraisal Guide

Field

Protocol

Exterior Dimensions

- * Determine the length and width of the subject manufactured home.

N.A.D.A Data Identification

- * Enter the edition month(s) and year of the N.A.D.A Manufactured Housing Appraisal Guide

MH State

- * Enter the state in which the manufactured home is located.

Region

- * Based upon the state in which the manufactured home is located and using the Regional Code Map of the N.A.D.A Guide, enter the appropriate region.

Size

- * Enter the exterior length and width of the manufactured home.

Gray Pages

- * Using the region code in the Gray Pages section of the N.A.DA. Guide, find the Trade Name of the home. This will provide a page number. White Pages Section (lists homes by manufacturer, model/trade name and by regional location

- * Using the page number located in the Gray Pages section, go to that page number in the White Pages Section, Part 1 of the N.A.D.A. Guide and locate the Trade Name and find the page number listed for the Manufacturer's Name, Model name for the listed width and Region Code.

Yellow Pages

(not listed in 1004C Cost Chart, provides current depreciated replacement value)

- * Using the page number located in the White Pages section, go to that page number in the Value Chart found in the Yellow Pages Section of the N.A.D.A. Guide and, using the length and width of the subject manufactured home, determine the base retail book value.

Black SVS pg.

- * Use the Black Pages SVS (Supplemental Value Section) section of the N.A.D.A. Guide when a home is not listed in the Gray or White Pages section.

Cost Approach using N.A.D.A. Appraisal Guide

Field

Protocol

Green Section

(not listed in 1004C Cost Chart, provides older home conversion chart, condition modifier, accessory values, etc.)

- * Use the Green Pages section of the N.A.D.A. Guide section of the N.A.D.A. Guide for older homes, to adjust for condition and add for components and accessories not addressed in the Yellow Pages Section.

NOTE:

- * To properly employ the N.A.D.A. Appraisal Guide, follow the N.A.D.A. instructions.

Indicated Value by the Cost Approach

- * Add the value of the supporting site to final, modified value of the manufactured home for the final indication of value.

Economic Life

- * State Remaining Economic Life as a single number or as a range.

Section 8 - Sales Comparison Approach

Comparable Data Pool

The appraiser is required to report the number of comparable properties currently offered for sale, as of the effective date of the appraisal, and the number of comparable sales in the subject neighborhood, within 12 months of the effective date of the appraisal, in this section. Unlike the neighborhood price data, which includes all sales, this section focuses only on those properties that are comparable to the subject, not the universe of sales.

If there was difficulty in locating comparable properties, i.e. the subject is a manufactured home and one or more of the similar style properties was a "stick or site built " home, then for purposes of this section, all such properties in the subject's neighborhood are to be treated as comparable and counted.

At least two of the comparable sale properties must be manufactured homes. It may be necessary to expand search parameters outside the immediate market area to locate truly comparable sales. If that is the case, an explanation is required and should be consistent with the neighborhood analysis provided.

Field

Protocol

Comparable properties offered for sale

* Enter the number of comparable properties currently offered for sale, including those under contract, within the subject neighborhood together with the price range.

Comparable sales

* Enter the number of comparable sales that occurred within the 12 month period preceding the effective date of the appraisal, and within the subject neighborhood, together with the price range.

Enter factual data in each field or line.

Field

Protocol

Address

? Enter the address that can be used to locate each property. Enter community, if needed, to identify property. For rural properties, list location by road name, nearest intersection and side road.

Proximity to Subject

? Enter proximity in straight-line distance and direction. For example, "1.5 miles NE" or "3 blocks south". If comparable distance from the subject is more than a generally accepted distance, or located outside the defined neighborhood boundaries, be sure to explain why the sale is applicable in the "Summary of Sales Comparison Approach" section.

Sale Price

? Enter the purchase price (total paid) for the subject and each of the comparable sales. This means the closed or settled price of the comparable sale.

* If the appraisal involves a refinance of the subject, enter "Refi" as the subject's sale price,

* If the assignment is for an REO appraisal, enter REO as the subject's sales price.

Sale Price / Gross Liv. Area

? Enter price per square foot for the above grade living area for the subject, if a purchase transaction, and each comparable sale.

Manufactured Home

* Indicate whether the comparable sale is a manufactured home. At least 2 of the comparable sale properties must be manufactured homes.

Data Source(s)

* Enter data source(s) used for sales and property information.

Verification Source(s)

- * Enter verification source(s). The document or organization from which the additional proof was obtained.
- * Contacting someone with first-hand knowledge of the transaction (agent, broker, buyer, seller, etc.) especially where it involves confirmation of seller concessions, is the preferred method of verification.
- * A single source may be used if the quality of data is such that sales data are confirmed and verified by settled transactions. Information provided should permit the reader of the report to locate the data from the sources cited.
- * Do not use as market data sales that are not verified and adjusted to reflect the terms and conditions of sale.

Value Adjustments

Adjustments are made to the prices of the sale properties for price-influencing dissimilarities between each sale and the subject property. Not all dissimilarities require adjustment because not all dissimilarities achieve price differentials in the market. All adjustments must be extracted from the market and supported by the actions of the market.

For each adjustment item, enter the description of the adjustment and whether it is an upward or downward adjustment. Do not make an adjustment unless it has a material effect on value.

The value factors of Location, Site, View, Design, Quality of Construction, Age, Condition and Functional Utility are all subjective factors that require subjective adjustments. Be careful that adjustments are reasonable and not excessive. If a property is overvalued, there is a high probability that the reason can be traced to an excessive adjustment somewhere in this section. Make adjustments only if the dissimilarity has a noticeable effect on the value. Small differences do not usually require adjustments. Always explain subjective adjustments.

VALUE ADJUSTMENTS

Field

Protocol

Sales or Financing Concessions

- * Report the type of financing such as Conventional, FHA or VA, etc.
- * Report the type and amount of sales concession for each comparable sale listed. If no concessions exist, the appraiser must note "none."
- * The appraiser is required to make market-based adjustments to the comparable sales for any sales or financing concessions that may have affected the sales price. The adjustment for such affected comparable sales must reflect the difference between the sales price with the sales concessions and what the property would have sold for without the concessions.

Date of Sale / Time

- ? State month and year of settlement. Showing the contract date and settled date is also acceptable.
- * Time adjustments, if any, must be supported by the market and consistent with the neighborhood market conditions noted. If this is the case, show both the contract date and settled date as any time adjustment should be calculated using the contract date (meeting of the minds) rather than the settled date. Explanation is required for any time adjustments.

Location

- * Enter the name of the subdivision or PUD. If none is applicable enter the neighborhood name that is commonly used to refer to the property's location or,
- * Location adjustments may be warranted for positive or negative factors that influence sales price such as busy street versus quiet street.
- * Explain any adjustments made in this area.

Leasehold / Fee Simple

? State whether the property was sold as Fee Simple or as a Leasehold Estate. An adjustment is required if the estate differs from the rights appraised for the subject property.

Site

? Enter the site size. Make adjustments only for measurable differences. Small differences in lot sizes do not usually call for an adjustment if the size is typical.

? If necessary, consider the possibility of excess or surplus land.

View

? Describe the view from the site, i.e. similar homes, commercial area, water view, scenic view, etc. Such terms as "Average" or "Good" are only to be used as adjuncts, i.e. "Residential/Average", "Water view/Good".

* Make adjustments only if the view is superior or inferior to the subject. If the subject has a superior view and adjustments are made, a photograph of the view amenity is recommended.

Design (Style)

? Enter the style according to a description used by local custom. Be consistent with improvement description.

Quality of Construction

? Enter "Good", "Average", "Fair", etc. using the quality rating from your cost service subscription or provider.

* Adjustments may also be warranted for interior construction quality and should be explained.

Actual Age

? Enter only the actual age of the subject and each comparable sale.

Condition

? Enter the condition of the subject and comparable sales.

* Only ratings to be used are: "New", "Good", "Average", "Fair" and "Poor"

? Consider required repairs or alterations to the subject completed when determining the need for adjustments to the comparable sales.

Above Grade Room Count

? Enter room count, consistent with the description of improvements on the front of the appraisal form.

Up to three adjustments may be entered:

* The first line is for bathroom count differences. A deficiency or surplus in the number of baths should be adjusted first.

* The second line adjustment is for room count.

* The third is for a difference in square footage.

? Explain any comparable property that has an adjustment in both square feet and room count.

Gross Living Area

? Enter the total square footage of the above grade living areas.

Basement & Finished Rooms Below Grade

? Provide total square footage of basement area and/or enter percentage of basement in relation to first floor area.

? Enter the type of rooms below grade: bedroom, recreation room, laundry, full bath, etc.

? Explain any special features or finishes in the "Summary of Sales Comparison Approach."

Functional Utility

? Enter "Equal", "Superior" or "Inferior" as a total of the items rated in the Improvement Analysis compared to the subject. Use the "Summary of Sales Comparison Approach" to explain differences.

? Adjust for functional obsolescence observed in the subject, recorded on Page 1, and not found in the comparables.

* Floor plan of the subject is required when functional obsolescence is attributable to layout or poor floor plan.

Heating / Cooling

? Enter type of heating and cooling systems, e. g. Gas FWA C/Air.

* Any adjustment for differences in heating and cooling systems should be based on market expectations.

Energy Efficient Items

? Describe energy efficient items: storm windows and doors, solar installations, replacement windows, etc. and enter an adjustment for differences if warranted. If none, so state.

Garage / Carport

?????Enter description of garage/carport used car storage. Calculate adjustments in accordance with market acceptance of carport value versus garage and size (one car, two cars, etc.).

Porch, Patio, Deck

? Enter these features for the subject and comparables if they exist. Base any adjustments on local market expectations.

Blank Lines

? Three blank lines are provided for the appraiser's use to describe additional amenities, features or individual characteristics not listed or addressed elsewhere in the sales grid, e.g. woodstove, fireplace, fencing, pool or other.

* Enter appropriate adjustments. For example, a pool located in an area that expects pools might bring a dollar premium in comparison to a comparable without a pool.

Net Adjusted (Total)

? Mark either [+] or [-] box to indicate if the total net adjustments will increase or decrease the value and note by how much. If any adjustment is excessive, review the comparable sales to determine if the best ones were selected. If the total adjustments appear excessive in relation to the sale price; the appraiser should reexamine the comparability of that sale.

? Explain any adjustment that appears to be excessive.

Adjusted Sale Price of Comparables

? Total all of the adjustments and add them to or subtract them from the sales price of each comparable. Generally, adjustments should not exceed 10% for line items, 15% for net adjustments and 25% for gross adjustments. If any adjustments exceed stated guidelines an explanation must be provided including reasons for not using more similar comparable sales.

Research sale or transfer history of subject & comps

* Enter an "X " in the applicable box indicating whether you "did" or "did not" research the sale or transfer history of the subject property and comparable sales. If not, provide explanation.

Prior sales or transfers of subject property

* Enter an "X " in the applicable box indicating whether your research "did" or "did not" reveal any prior sales or transfers of the subject property for the three years prior to the effective date of this appraisal.

Data Source(s)

* Enter data source(s) used for sales and transfer information.

* Appraisers are to be familiar with the data source(s), e.g. how the data is gathered and how often it is updated

* Be familiar with the data source(s), i.e. how the data is gathered and how often it is updated, what is the publication date of the data, what is the effective date of the data.

Prior sales or transfers of comparable sales

* Enter an "X " in the applicable box indicating whether your research "did" or "did not" reveal any prior sales or transfers of the comparable sales for the year prior to the date of sale of the comparable sale.

Data Source(s)

* Enter data source(s) used for sales and transfer information. Two sources are recommended for researching prior sales and transfers, local MLS and local public records at a minimum.

* Appraisers should be familiar with the data source(s), e.g. how the data is gathered and how often it is updated.

Report the results of the research and analysis of the prior sale or transfer history of the subject property and comparable sales (report additional prior sales in the "Additional Comments" section or an addendum).

Field

Protocol

Date of Prior Sale / Transfer

* Report the date(s) of prior sale(s) or transfer(s) of the subject that occurred within three years of the effective date of the appraisal.

* Report the date(s) of prior sale(s) or transfer(s) of each comparable sale for the year prior to the date of the comparable sale.

Price of Prior Sale / Transfer

* Report the price of the prior sale(s) or transfer(s) of the subject that occurred within three years of the effective date of the appraisal.

* Report the price of the prior sale(s) or transfer(s) of each comparable for the year prior to the date of the comparable sale.

Data Source(s)

* Enter data source(s) used.

Effective Date of Data Source(s)

* Enter the date the data was published or updated by the source. For example, the local MLS may update their database multiple times during the week or month whereas property transfers at the local land records office may take six or eight weeks to be recorded. The property transfer records may have an effective date that is eight weeks earlier than the appraisal date and the MLS data is within one week of the appraisal date.

Narrative Comments

Field

Protocol

Analysis of prior sale or transfer history of subject and comparable sales

* Provide analysis of prior sale or transfer history of the subject and comparable sales.

* Analysis may address changes in property conditions between sale dates or verifying if prior sale was an arm's-length transaction.

Summary of Sales Comparison Approach

* Explain comparable selection and any necessary explanation of adjustments.

* Explain any adjustments exceeding guidelines.

* Explain which comparable sale or sales is/are given most weight or consideration and why.

Indicated Value by Sales Comparison Approach

* Enter the Indicated Value

Section 9 - Reconciliation

The appraiser should consider all appropriate approaches to value and all information relevant to the subject property and the market conditions in the opinion of market value.

If there is insufficient space in the reconciliation section to list and describe the valuation conditions noted, then the appraiser is instructed to insert a reference in the reconciliation section "see Additional Comments section on the next page" and list and describe the items under the heading "Required Repairs/Inspections". If necessary, due to space limitations, use an addendum with the same heading.

Field

Protocol

Indicated Value by:

* Enter the Indicated Value for each of the approaches to value developed. If the approach was not developed, enter "ND" or "Not Dev" for not developed.

* Reconcile the three approaches to value with a brief description of the validity of each approach with respect to the appraisal assignment.

This appraisal is made

Field

Protocol

Mark this box

"as is"

when:

- * There is/are no Property Condition(s) noted.
- * Establishing the "as is" value for a regular 203(k) when needed.
- * The property is ineligible for FHA financing and is being rejected.

This appraisal is made

Mark this box

"per plans & specs"

when the appraisal involves:

- * Proposed construction, or
- * Under construction, less than 90% complete, or a
- * 203(k) with a Plan Review and Specification of Repairs prepared by a 203(k) Consultant.

This appraisal is made

Mark this box

"subject to repairs or alterations"

when the appraisal involves existing housing, or new construction more than 90% complete with only buyer preference items remaining (floor coverings, appliances, landscaping packages (soil must be stabilized to prevent erosion)), requiring repairs or alterations to:

- * Protect the health and safety of the occupants
- * Protect the security of the property
- * Correct physical deficiencies or conditions affecting structural integrity
- * Complete buyer preference items for new homes, or to
- * Complete repairs/improvements noted in work order or contractor estimates for the Streamline K
- * Meet FHA Minimum Property Requirements

The appraiser must indicate the extent of repairs and note this in the appropriate section of the appraisal, or in the "additional comments" section, or in an addendum, under the heading of "Reconciliation – Required Repairs" listing the repairs noted together with an estimated cost to cure.

This appraisal is made

Field

Protocol

Mark this box

"subject to a required inspection"

when the appraisal calls for a required inspection to:

- * Certify the condition and/or status of a mechanical or structural element of the property
- * Protect the health and safety of the occupants
- * Protect the security of the property
- * Meet FHA Minimum Property Requirements or Minimum Property Standards

More than one box may be marked depending on the assignment and property conditions.

The appraiser must indicate the reasoning for any required inspections and note this in the appropriate section of the appraisal, or in the "additional comments" section, or in an addendum, under the heading of "Reconciliation - Required Inspection " listing the required inspections.

The value "subject to completion per plans and specifications", "subject to the following repairs or alterations", or "subject to the following required inspection" must be consistent with the subject property condition(s) described.

Opinion of Market Value

* Enter the opinion of Market Value

Final Reconciliation

? This entry should contain the appraiser's reasoning for arriving at the final value.

Date of Value

? Enter the date when the property was inspected.

More than one box may be marked in the reconciliation section depending on the assignment and property conditions.

Section 10 - Additional Comments

These comment lines provide additional space for the appraiser to fully describe any item, area or condition where the commentary exceeds the space provided in other sections of the report. It is recommended that any information carried forward to the additional comments section, or an addendum if needed, follow the sequence of the form with a proper heading identifying said section.

For example, the neighborhood "market conditions" comments exceed the space provided on the form. In that case, on page one in neighborhood market conditions enter "See additional comments", in the "additional comments" section enter the heading "Neighborhood Market Conditions" and provide the narrative in this section. Follow the same procedure for any section of the report where commentary exceeds space provided. This will provide the reader with the proper identification and linkage of additional comments together with a logical flow of information in a standardized reporting format.

Section 11 - Income Approach

In a single-family residential property, the Income Approach is generally not recognized as a basis for buying by the market. The approach typically provides minimal applicability in the opinion of market value. Therefore, the Income Approach is not required for FHA appraisals completed on the Manufactured Home Appraisal Report, Fannie Mae Form 1004C.

Income Approach To Value (not required for FHA appraisals)

Field

Protocol

Income Approach

? Enter "N/A" in each blank field in this section of the report.

Section 12 - PUD Information

A PUD is a project that includes common property and improvements owned and maintained by an owners' association for the use and benefit of the individual units in the subdivision. If not applicable, leave blank.

Project Information for PUDs (if applicable)

Field

Protocol

Developer/Builder in
control of HOA

? Enter an "X" in the box indicating whether or not the developer/builder is in control of the Home Owners' Association (HOA).

Unit Type(s)

* Enter an "X" in the box indicating unit type, Detached or Attached.

Provide the following information for PUDs only if the developer is in control of the HOA and the subject property is an attached dwelling unit.

The information requested is self-explanatory. Appraisers may choose to answer the last question referencing common elements and recreational facilities in support of a location adjustment regardless of dwelling style.

Field

Protocol

Legal name of project

Total number of phases Total number of units

Total number of units sold

Total units rented

Total units for sale

Data source(s)

* Provide source(s) of information, e.g. HOA board, management company, etc.

Was the project created by the conversion of an existing building(s) into a PUD? If Yes, date of conversion.

Does the project contain any multi-dwelling units? Yes No Data source(s)

Are the units, common elements, and recreation facilities complete? Yes No

If no, describe the status of completion.

Describe common elements and recreational facilities.

D-3 Individual Condominium Unit Appraisal Report [<TOP>](#)

This section provides specific instructions for completing the Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073 March 2005, Condo).

This report form is designed to report an appraisal of a unit in a condominium project or a condominium unit in a planned unit development (PUD) based on an interior and exterior inspection of the subject property. This form is not designed to report an appraisal of a manufactured home or a unit in a cooperative project.

Section 1 - Subject

This section provides the factual data to identify the property and the parties to the appraisal process. The *FHA case number together with *borrower and/or *property information will be supplied by the lender/client who engages the appraiser.

Field

Protocol

*File Number

? Insert the FHA Case Number at the top right corner of the page.

* The FHA appraisal may not be transmitted to the lender without a case number.

*Property Address

? Enter the property street number and name, city, state and zip code for the property. A post office box number is not acceptable.

* Enter Unit #

*Borrower

* Enter the name of the borrower/mortgagor.

Owner of Public Record

* Enter the name of the owner as listed in public records. If the seller is not the owner of public record the appraiser must explain.

County

* Enter the name of the county in which the property is located. It further provides locational parameters.

If not applicable enter "N/A".

Legal Description

? Enter the legal description of the property. The four types of legal descriptions are: lot and block system, geodetic survey, government survey system and metes and bounds system. If the space provided is insufficient, enter "see attached addendum" and create addendum with the heading "Legal Description" and complete the legal description.

Assessor's Parcel #

* Enter the parcel number assigned by the local tax assessor. For those areas that do not have an assessor's parcel number, enter the tax identification number.

Tax Year

* Enter the current tax year used by the locale, e.g. fiscal year or actual year.

R. E. Taxes \$

* Enter the dollar amount of the annual real estate taxes, including all relevant taxes (school district tax, fire district tax, etc.).

Project Name

* Enter the name of the condominium project. The name of the project can be obtained from the condominium documents or public records.

Phase #

* Enter the phase number of the subject, if applicable. Refer to condominium documents, public records or confirm through Management Company.

Map Reference

* Enter location map reference, page number and coordinates, from source used.

This reference should relate to the location maps most commonly used in the locale.

Census Tract

* Enter the census tract number. Census tract numbers must be provided.

* The Census Bureau has an internet resource guide for locating census information. It can be found at URL: www.census.gov

Occupant

* Mark the box signifying the occupancy status at the time of the appraisal.

If vacant, the appraiser should note in the "Unit Description" section under "condition of the property" whether the utilities were on or off at the time of the appraisal. If off, condition the appraisal on a satisfactory re-inspection that the utility that was off at the time of the appraisal does not require alteration, repair or further inspection.

Special Assessments \$

* Report the dollar amount of special assessments for the subject property, if any, and provide a brief explanation for the assessment. Special assessments can include municipal bond debt for off-site improvements. Larger than typical special assessments may affect marketability. If not applicable enter "N/A".

HOA\$

? Enter the dollar amount of the HOA fee (Condo fee) and mark the box indicating if the fees are paid "per year" or "per month".

Property Rights Appraised

? Mark the appropriate box indicating the property rights appraised for the subject property as of the date of the appraisal. "Other" includes Land Trust.

Assignment Type

* Mark the appropriate box indicating the assignment type.

Lender/Client

Address

? Enter the name of the lender/client who ordered and will receive the appraisal report. After the client's name add "its successors or assigns".

* The use of the appraisal is to support FHA's decision to provide mortgage insurance on the real property that is the subject of the appraisal; therefore, intended users include the lender/client and FHA.

* Enter the lender/client's address.

Currently offered for sale or offered for sale in last 12 months.

* The appraiser's certification states in part "I have researched, verified, analyzed and reported on any current agreement of sale of the subject property, any offering for sale of the subject property in the twelve months prior to the effect date of the appraisal..."

* Mark the appropriate box indicating whether the subject is currently offered for sale or has been offered for sale in the 12-month period prior to the effective date of the appraisal. If there are multiple actions, report each instance. Research may reveal an expired or withdrawn listing. The prior listing may provide a good indication of the upper limit of value.

Report data source(s) used, offering price(s), and date(s)

* Complete this field regardless of whether the property is for sale or has been for sale in the 12 months preceding the date of the appraisal.

* Enter source(s) used, price(s) and date(s) of current or prior listings.

Section 2 - Contract

This section must be completed when the appraisal assignment involves a purchase transaction, otherwise enter "N/A" for not applicable. FHA requires that the appraiser be provided with a complete copy of the ratified sales contract, including all addenda, for the subject property. It provides the agreed-on contract price (accepted offer), date of sale, and all financial terms implicit in the offer. If unable to obtain this information, the appraiser is to state what efforts were made to obtain it.

Field

Protocol

Analyze Contract for Sale

* Explain the results of the analysis (terms and conditions) of the contract of sale or why the analysis was not performed.

* The analysis may include a reference to the number of pages contained in the contract for sale provided.

Contract Price \$

? Enter the final agreed upon contract price?.

Date of Contract

? Enter the date of the contract. This is the date when all parties have agreed to the terms of, and signed the contract.

Is The Property Seller The Owner of Public Record

Data Source(s)

?????Mark the appropriate box indicating whether or not the seller is the owner of public record. The appraiser is instructed to contact the lender/client if the seller is someone other than the owner of record. The property may not be eligible for FHA financing if it involves flipping (resale in less than 90 days). The lender will make a determination for any exceptions to FHA's Flipping Rule and advise the appraiser.

? Report where the information was obtained.

Sales Concessions Downpayment Assistance

* Mark the appropriate box indicating whether or not there is any financial assistance (loan charges, sales concessions, gift or down payment assistance, etc.) paid by any party on behalf of the borrower. If necessary, use an addendum and enter the heading "Sales Concessions" completing the description.

* If yes, the appraiser is to report the total dollar amount and describe the items to be paid. If the sale involves personal property (e.g. above ground pool, lawn mower, furniture, etc.) is should be identified and excluded from the valuation.

Section 3 - Neighborhood

This section should reflect the area surrounding the subject property. The appraiser must observe neighborhood characteristics and surrounding properties to make determinations that will be incorporated into the valuation of the subject property. In all instances, the appraiser must mark the appropriate box for each line in neighborhood characteristics and housing trends. Failure to note conditions that may adversely affect the value of the property is poor appraisal practice and violates the Uniform Standards of Professional Appraisal Practice.

NOTE: Race and the racial composition of the neighborhood are not appraisal factors.

Neighborhood Characteristics

Field

Protocol

Location

? Enter the type of area surrounding the subject property.

Urban - relates to a city

Suburban - relates to an area adjacent to a city

Rural - relates to the country or beyond the suburban area

Built-up

? Enter the built-up percentage - the percentage of available land that has been improved. Land such as a state park would not be considered available land.

Neighborhood Characteristics

Field

Protocol

Growth

? Enter the growth rate. If many lots are available, the growth rate may be rapid, stable or slow, but if the neighborhood is fully developed, select the "stable" box.

Condominium Unit Housing Trends

Field

Protocol

Property Values

? Mark the box describing the current trend in property values for condominium units in the community. Comparing individual condominium units that have been sold and resold in recent years is an effective way to determine market trends. Appraisers who use this method, however, should make sure to factor in any improvements or changes made to the property between sales.

Demand/ Supply

? Mark the appropriate demand/supply trend. To determine the equilibrium status of supply and demand in the neighborhood, compare the number of condominium units sold to the number of condominium units listed for sale in a recent time period. The similarity or difference between the number of units sold and listed, not the absolute numbers, should determine the demand/supply level.

Marketing Time

? Mark the appropriate marketing time - the typical length of time a property similar to the subject property would have to stay on the market before being sold at a price near its market value.

Condominium Housing

Price Age

? Indicate the low and high neighborhood prices and ages as well as the predominant value and age. The high and low for both price and age should exclude the extreme.

Present Land Use %

One-Unit, 2-4 Unit, Multi-Family, Commercial, Other

? Estimate each type of land usage in the neighborhood. If there is no land in the neighborhood with one of the designated classifications, enter a "0". If a portion of the land consists of parks or other unspecified classifications, enter the estimated percentages on the "Other" line and explain in the neighborhood description section.

Neighborhood Narrative

Neighborhood Boundaries

? The appraiser must clearly define the boundaries - north, south, east and west - of the subject's neighborhood. Providing a description of neighborhood boundaries by physical features such as streets, rail lines, other man-made barriers or well defined natural barriers (i.e. rivers, lakes, etc.) details the make up and understanding regarding neighborhood composition.

Neighborhood Narrative

Neighborhood Description

? Discuss factors that would attract residents or cause them to reject the neighborhood. These are typical factors important to discuss:

- o Level of maintenance and condition of homes
- o Housing styles, ages, sizes, etc.
- o Land uses
- o Proximity to employment and amenities, including travel distance and time to local employment sources and community amenities
- o Employment stability, in terms of variety of employment opportunities and industries
- o Appeal to market regarding the overall appeal of the neighborhood as compared to competitive neighborhoods in the same market
- o Convenience to shopping with respect to distance, time and required means of transportation
- o Convenience to schools in terms of the distance and time for travel to school

Market Conditions (including support for the above conclusions)

* Provide relevant information in support of conclusions relating to trends in property values, demand/supply and marketing time.

* Provide a description of the prevalence and impact of sales and financing concessions and/or down payment assistance in the subject's market area.

* Other areas of discussion may include days on market, list to sale price ratios, and/or financing availability.

Section 4 - Project Site

This information provides the description of the land underlying the subject project. Insert factual information on each of the lines provided and report the conclusions as directed. Consider all aspects of the physical description and reconcile them in the opinion of market value. This section of the appraisal requires the appraiser to consider any adverse site conditions or adverse external factors that may impact value.

Field

? Protocol

Topography

? Enter site topography, e.g. basically level, or it may be moderately sloping, strongly sloping, or steeply sloped, hilly, rolling, flat, etc. Provide an explanation regarding whether the topography affects marketability and/or value.

Size

? Enter the project site area in square feet if less than one acre. Enter the acreage only if more than one acre. How does size of subject compare to typical sites in market area?

Density

* Enter density classification as shown in zoning or other public records for unit per acre, i.e. low density may be town houses or garden style projects; high density may be mid-rise or high-rise projects.

View

? Briefly describe the view from the unit (None is not an acceptable response).

* Identify a view with a significant positive or negative influence on the value.

* Photographs are recommended for any negative or positive view influences affecting value or marketability.

Specific Zoning Classification

? Enter the specific zoning classification used by the local municipality or jurisdiction, e.g., R15, DR-3, etc.

* If none exists, enter "None Exists."

Zoning Description

* Describe what the specific classification means. Include a general statement describing what the zoning permits. For example: R15 = Low

Density Multi-Family Residential

* If "No Zoning" exists, describe the prevalent use of sites in the neighborhood.

Zoning Compliance

? Determine whether the current use is in compliance with the zoning ordinances. Mark the box indicating whether it is Legal, Legal

Non-Conforming (Grandfathered Use), No Zoning, or Illegal Use.

? If the existing property does not comply with all of the current zoning regulations (use, lot size, improvement size, off street parking, etc.) but is accepted by the local zoning authority, enter "Legal Non-Conforming" and provide a brief explanation.

* Mark the appropriate box "yes" or "no" indicating that the zoning regulations permit rebuilding to current density.

* If the use is not legal, the property is not eligible for FHA mortgage insurance.

Highest and

Best Use

? Mark the appropriate box. This entry questions the categorization as the highest and best use of the site as improved or, as proposed and completed, in relation to the neighborhood and current market conditions.

? If current use represents the highest and best use, mark "yes".

? If it does not, mark "no" and provide an explanation.

Utilities

? Mark either "Public" or "Other." If "Other" is marked, describe. Public utilities mean governmentally supplied and regulated. Public does not include any community systems sponsored, owned or operated by the developer or a private company not subject to government regulation or financial assistance.

? Note if there are mechanical chlorinators or water-flow that decreases noticeably while running simultaneous plumbing fixtures.

?????Visually inspect the septic system and its surrounding area. If there are obvious or readily observable signs of system failure, "require inspection" to ensure that the system is in proper working order.

Note: The appraiser shall indicate whether a public water or sewage disposal system is available to the site. If available, connection must be made to public or community water/sewage disposal system if connection costs are reasonable. The lender will determine whether connection is feasible.

Off-site Improvements-Type

? Briefly describe the off-site improvements by which the property is accessed.

* Under "Type", enter road surface material and mark Public or Private. For example: "Street-Asphalt; Public", "Alley-None"

? Public refers to an improvement dedicated to and accepted by a unit of government - not including Home Owner's Associations.

FEMA Special Flood Hazard Area

? FEMA (Federal Emergency Management Agency) is responsible for mapping flood hazard areas. If the property is within a Special Flood Hazard Area, mark "YES". Otherwise, mark "NO".

? Attach a copy of the flood map panel for properties located within an identified flood hazard area.

FEMA Flood Zone

? Enter the FEMA Zone designation. Only properties within Special Flood Hazard Areas, such as zones "A" a special flood hazard area and "V" a coastal area, require flood insurance, Zones "B" "C" and "X" do not.

FEMA Map # and FEMA Map Date

? Enter the FEMA Map number and map date. If it is not shown on any map, enter "Not Mapped."

Are utilities and off site improvements typical for the market area

* Mark the appropriate box indicating whether the utilities and off-site improvements are typical for the market area.

* If "No" is marked, explain what is typical.

Any adverse site conditions or external factors

? Mark the appropriate box indicating whether there are any adverse site conditions or external factors (easements, encroachments, environmental conditions, land uses, etc.).

* If "No" is marked, no comment is necessary, if "Yes" is marked, an explanation is required.

* Describe any adverse site conditions or adverse factors. Consider easements affecting the functional utility of the property in the conclusions of both the highest and best use and market value. For example, discuss adverse easements, encroachments, slide areas, illegal or non-conforming zoning use, etc. Consider surface, sub-surface and overhead easements.

* List any adverse environmental conditions, including hazardous waste, toxic substances and others.

* Explain all deficiencies that do not require repair (extreme slope, etc.) and consider them in the opinion of value.

? Discuss the observations with direct relationship to value and consider them in the final opinion of value.

Section 5 - Project Information

This section describes the subject condominium project information. Accurately report the conditions observed including the overall condition of the project and quality of construction. Enter factual

information on each of the lines provided and report the conclusions. Consider all aspects of the project information and reconcile them in the opinion of market value.

Field

Protocol

Data source (s) for project information

* Enter the data source(s) for the project information, i.e. condo documents, public records, property management company, board or association officials, etc.

Project Description

* Mark the box that best identifies the type of project description. Some projects may contain more than one building type. In those cases, mark the appropriate boxes. If "other" is marked, enter a brief description for the project description.

General Description

Field

Protocol

of Stories

? Enter the number of stories for the project property type, i.e. number of stories for garden, mid-rise, or high-rise projects, townhouse, etc.

of Elevator(s)

? Enter the number of elevators. If none, enter "walk up".

Stage of Construction

? Mark the box indicating the stage of construction, Existing, Proposed or Under Construction.

Properties that are either Proposed or Under Construction require plans and specifications for the appraiser to review.

Year Built

? Enter the year built.

Effective Age (Yrs)

? Enter the effective age of the improvements. A range is acceptable.

The effective age reflects the condition of the property relative to similar competitive properties. The effective age may be greater than, less than or equal to the actual age.

? Note any significant difference between the actual and effective ages and explain in the "condition of property" comments section.

Exterior Walls

* Enter the type of construction material: aluminum, vinyl, wood siding, brick veneer, stucco, etc. If a combination of materials, show the predominant portion first.

General Description

Field

Protocol

Roof Surface

* Enter material type used for roof covering: composition shingle, wood, slate, clay tile, gravel, built-up, etc.

Total # Parking

* Enter the total number of parking spaces for the condominium project.

Ratio (spaces/units)

* Enter the ratio, total number of parking spaces divided by the total number of units.

Type

* Enter the type of parking in the condominium project, such as open, garage, carport, or assigned.

Guest Parking

* Enter the number of guest, visitor, or non-assigned parking spaces in the condominium project.

Subject Phase

Field

Protocol

of Units

* Enter the total number of units in the subject's phase.

of Units Completed

* Enter the number of units in the subject phase that have been completed.

of Units for Sale

* Enter the number of units in the subject's phase currently offered for sale.

of Units Sold

* Enter the number of units in the subject's phase that have been purchased.

of Units Rented

* Enter the number of units in the subject's phase that are rented.

of Owner Occupied Units

* Enter the number of units in the subject's phase that are owner occupied.

If Project Completed

Field

Protocol

of Phases

* Enter the total number of phases of construction in the subject project.

of Units

* Enter the total number of units in the subject project.

of Units for Sale

* Enter the number for sale in the subject project.

of Units Sold

* Enter the number of units sold in the subject project.

of Units Rented

* Enter the number of units rented in the subject project.

of Owner Occupied Units

* Enter the number of owner occupied units in the subject project.

If Project Incomplete

Field

Protocol

of Planned Phases

* Enter the total number of planned phases for the subject project.

of Planned Units

* Enter the number or planned units for the subject project.

of Units for Sale

* Enter the number of units for sale in the subject project.

of Units Sold

* Enter the number of units sold in the subject project.

of Units Rented

* Enter the number of units rented in the subject project.

of Owner Occupied Units

* Enter the number of owner occupied units in the subject project.

Field

Protocol

Project Primary Occupancy

* Mark the box indicating the occupancy type for the project, i.e. Principle Residence, Second Home or Tenant.

Is the developer/builder in control of the HOA

* Mark the box indicating whether or not the developer/builder is in control of the HOA.

Management Group

* Mark the box identifying the type of management group. If management agent is marked, provide name of management company and phone number.

Does any single entity own more than 10% of the total units in the project ?

* Enter an "X" in the applicable box indicating whether or not a single entity owns more than 10% of the total units in the project. If "yes", provide the name of the entity and the number of units owned. It is possible to have multiple entities in this category.

Was the project created by conversion ?

* Enter an "X" in the applicable box indicating whether or not the project was created by a conversion. If "yes", describe the original use and the date of conversion.

Are the units, common elements, and recreation facilities complete?

* Enter an "X" in the applicable box indicating whether or not the common elements and recreational facilities have been completed.

* If "no", provide an explanation describing what remains to be completed.

Is there any commercial space in the project?

* Enter an "X" in the applicable box indicating whether or not there is commercial space in the project. If "yes" describe the commercial space and provide the overall percentage of commercial space.

Describe the condition of the project and quality of construction

* Describe the overall condition and maintenance of the project.

* Note any evidence of physical deterioration

* Rate the project's condition (Good, Average, Fair, Poor).

* Rate the quality of construction giving consideration to the durability and quality of the materials and finish.

Describe the common elements and recreational facilities

* Describe common elements and recreational areas such as parking areas, pools, courts, club houses, fitness centers, etc.

Are any common elements leased to or by the HOA?

* Enter an "X" in the box indicating whether or not any of the common elements are leased to the HOA.

* If "yes" provide a description of the rental terms and options and comment on any effect on the marketability or value of the project.

Is the project subject to ground rent?

* Enter an "X" in the box indicating whether or not the project is subject to a ground rent.

* If "yes", enter the dollar amount of the annual ground rent and describe the terms, restrictions, and conditions of the lease agreement and what effect, if any, it has on the marketability or value of the project.

Are the parking facilities adequate for the project size and type?

* Enter an "X" in the box indicating whether or not the parking facilities are adequate for the project size and type.

* If "no" describe and comment on the effect of value and marketability. For example, projects of similar size, type and quality have garage parking whereas the subject project has assigned open spaces.

Section 6 - Project Analysis

Field

Protocol

Analyze the Condominium Project Budget

* Explain the results of analysis of the condominium project budget or why the analysis was not performed.

* The analysis includes adequacy of the fees and reserves to meet operating expenses which may include: legal and accounting, utilities, trash removal, snow removal, repairs and maintenance, recreational areas maintenance and upkeep, gardening and yard maintenance, taxes, insurance, facility rentals, etc.

Are there any other fees for the use of the project facilities

* Enter an "X" in the box indicating whether or not there are any fees other than the regular HOA fee for use of the project facilities.

* If "yes", report the charges and describe.

Compared to other competitive projects

* Mark the box that best indicates the subject project's unit charge comparability to competitive projects of similar quality and design.

* If either the "High" or "Low" box is marked, an explanation is required.

Are there any special or unusual characteristics of the project known to appraiser?

* Enter an "X" in the box indicating whether or not there are any special or unusual characteristics of the project known to the appraiser (information from condo documents, budget, HOA meetings, or other sources.

* If "yes", describe and explain the effect on value and marketability. For example, condo increasing by 30% to cover major repair due to lack of adequate reserves for building maintenance.

Section 7 - Unit Description

Mechanical Systems

An appraiser must examine mechanical, plumbing and electrical systems of the subject property to ensure that they are in proper working order. This examination entails turning on the applicable systems and observing their performance. Do not operate the systems if doing so may damage equipment, or when outside temperatures will not allow the system to operate.

Field

Protocol

Unit Charge

* Enter the monthly condo/HOA fee, multiply by 12 and enter result per year.

Annual Assessment per Sq.Ft. of GLA

* Divide the annual assessment charge per year by the GLA to compute the assessment per square foot.

Utilities included in monthly assessment

* Enter an "X" in the appropriate box or boxes identifying which utilities are included in the unit monthly assessment.

* If "other" is marked, please describe.

General Description

Field

Protocol

Floor #

* Enter the floor level location of the unit.

of levels

* Enter the number of levels contained in the subject unit.

Heating Type

? Enter the type of heating system: FWA (forced warm air), HWBB (hot water baseboard), HWRad (hot water radiant) EBB (for electric baseboard), etc.

* Turn on the furnace/heating system to test functionality, weather permitting, and that no unusual noises are heard, no odors or smoke are emitted indicating a defective unit, etc. However, do not operate the systems if doing so may damage

* Turn on the hot water to ensure that the water heater is operating appropriately.

* Note any significant deterioration to heating system.

Fuel

* Enter type of fuel used: natural gas, oil, propane, electric, etc.

Cooling Type

* Enter an "X" in the box indicating the type of cooling system: Central Air Conditioning, Individual or Other. If "Other" is marked, provide a brief description, e.g. permanently affixed fans, zoned air-conditioning, etc.

* Turn on the air conditioning system to test functionality, weather permitting, and that no unusual noises are heard, no odors or smoke are emitted indicating a defective unit, etc. However, do not operate the systems if doing so may damage equipment or when outside temperatures will not allow system to operate.

* Note significant holes/deterioration on the unit

Interior Materials/Condition

Enter the types of Materials and the Condition of the Materials (Good, Average, Fair, and Poor). Make every effort to describe accurately and explain in detail "Fair" and "Poor" ratings. The rating must relate to the habitability of the house given local standards.

Interior

materials/condition

Field

Protocol

Floors

* Enter floor type - tile, hardwood, carpet, etc. - and note the condition.

Walls

* Enter type of walls - plaster, drywall, paneled, etc. - and note the condition.

Trim/Finish

* Enter type of molding - wood, metal, vinyl, etc. - and note the condition.

Bath Wainscot

* Enter type that protects walls from moisture - ceramic tile, fiberglass, etc. - and note the condition.

Doors

* Enter door types - wood, metal, hollow core, etc. - and note the condition.

Amenities

Field

Protocol

Fireplace(s) #

* Enter "X" if this amenity exists and provide a specific number

Woodstove #

? Enter "X" if this amenity exists and provide a specific number

Deck/Patio

* Enter "X" if this amenity exists.

Porch/Balcony

* Enter "X" if this amenity exists.

Other

* Enter "X" in this box if applicable and describe amenity or feature.

Appliances

Make an entry [X] in the boxes to indicate that these items exist. An entry in a box means that the item was considered part of the real estate and is included in the value. If an item is personal property, put a

"P" in the box and do not include it in the opinion of value. Treat non-functioning equipment as existing, but as deferred maintenance in the valuation process.

Field

Protocol

Refrigerator

Enter "X" if this item exists. Enter "P" if personal property.

Range/Oven

Enter "X" if this item exists. Enter "P" if personal property.

Disp / Microwave

Enter "X" if this item exists. Enter "P" if personal property.

Dishwasher

Enter "X" if this item exists. Enter "P" if personal property.

Washer/Dryer

Enter "X" if this item exists. Enter "P" if personal property.

Car Storage

Field

Protocol

None

* Mark "NONE" if there is no car storage space.

Type of Space

* Enter an "X" in the box or boxes signifying type of storage space, if applicable.

of Cars

* Enter the number of cars the space can accommodate, if applicable.

Assigned or Owned

* Mark this box indicating whether, space(s) are assigned or owned, if applicable.

Parking Space #

* Enter the parking space #/

Gross Living Area

The appraiser must attach a sketch of the subject unit that indicates interior perimeter unit dimensions rather than exterior dimensions (include the calculations to show how you arrived at the estimated gross living area) or attach a copy of the floor plan (along with dimensions) provided in the condo documents which also lists the square footage.

Room Count, Gross Living Area and Heating and Cooling separately metered

Field

Protocol

Finished area above grade contains

? To complete this section, enter the total number of above grade rooms, the total number of bedrooms above grade, and the total number of bathrooms above grade. Do not include foyers, basement finished rooms or unfinished attic space.

* Enter the total square footage of the gross living area above grade.

Are heating and cooling separately metered?

* Enter an "X" in the box indicating whether or not the heating and cooling for the individual units separately metered? "

* If "No", describe and comment on compatibility to other projects in the market area.

Narrative Comments Section

The completion of this section is critical to the opinion of market value. The appraiser must discuss all adverse conditions and observed physical and functional deficiencies noted. If necessary, use the Additional Comments section of the form report, or an addendum, for additional discussion or description.

Field

Protocol

Additional Features

- ? Use this space to describe special energy efficient features such as solar energy or geothermal systems and/or to further describe the additional features,
 - ? Please elaborate on any special or unusual aspects of items, e.g. gas fireplace or wood burning fireplace. Condition of the property (including needed repairs, deterioration, renovations, remodeling, etc.)
 - ? Describe any physical deterioration and/or functional or external depreciation noted at the property.
 - ? Provide a conclusion as to the overall condition of the improvements that is supported by the previous descriptive sections.
- * Describe needed repairs.

Physical deficiencies or adverse conditions

* Enter an "X " in the applicable box indicating whether or not there are any physical deficiencies or adverse conditions that affect the livability, soundness, or structural integrity of the property. If the response is "No", no explanation is required or needed. However, if the response is "Yes", a full and detailed explanation is required and, if necessary, condition the appraisal on the "repair or alteration of the condition" or a "required inspection" by appropriately qualified individuals or entities, which may include professional engineers, tradespersons, HUD Fee Inspectors.

Field

Protocol

Physical deficiencies or adverse conditions

Lead-Based Paint Hazard

* If the home was built before 1978, this may indicate a lead paint hazard. For all FHA insured properties, correction is required to all defective paint in or on structures and/or property improvements built before January 1, 1978 in accordance with 24 CFR Part 35.

* Observe all interior and exterior surfaces, such as walls, stairs, deck porch, railing, windows or doors for defective (chipping, flaking or peeling) paint. (Exterior surfaces include surfaces on fences, detached garages, storage sheds and other outbuildings and appurtenant structures.). Note any areas affected (be specific) and condition the appraisal on their repair subject to the satisfaction of the condition.

Property conformity

* Enter an "X " in the applicable box indicating whether or not the subject generally conforms to the neighborhood (functional utility, style, condition, use, construction, etc.). If the response is "Yes", no explanation is required or needed. However, if the response is "No", an explanation is required.

Section 8 - Prior Sale History

Field

Protocol

Research sale or transfer history of subject & comps

* Enter an "X " in the applicable box indicating whether you "did" or "did not" research the sale or transfer history of the subject property and comparable sales. If not, provide explanation.

Prior sales or transfers of subject property

* Enter an "X " in the applicable box indicating whether your research "did" or "did not" reveal any prior sales or transfers of the subject property for the three years prior to the effective date of this appraisal.

Data Source(s)

* Enter data source(s) used for sales and transfer information. Two sources are recommended for researching prior sales and transfers, local MLS and local public records at a minimum.

* Be familiar with the data source(s), i.e. how the data is gathered and how often it is updated, what is the publication date of the data, what is the effective date of the data.

Prior sales or transfers of comparable sales

* Enter an "X " in the applicable box indicating whether your research "did" or "did not" reveal any prior sales or transfers of the comparable sales for the year prior to the date of sale of the comparable sale.

Data Source(s)

* Enter data source(s) used for sales and transfer information. Two sources are recommended for researching prior sales and transfers, local MLS and local public records at a minimum.

* Be familiar with the data source(s), i.e. how the data is gathered and how often it is updated, what is the publication date of the data, what is the effective date of the data.

Report the results of the research and analysis of the prior sale or transfer history of the subject property and comparable sales (report additional prior sales in the "Additional Comments" section or an addendum).

Field

Protocol

Date of Prior Sale / Transfer

* Report the date(s) of prior sale(s) or transfer(s) of the subject that occurred within three years of the effective date of the appraisal.

* Report the date(s) of prior sale(s) or transfer(s) of each comparable sale for the year prior to the date of the comparable sale.

Price of Prior Sale / Transfer

* Report the price of the prior sale(s) or transfer(s) of the subject that occurred within three years of the effective date of the appraisal.

* Report the price of the prior sale(s) or transfer(s) of each comparable for the year prior to the date of the comparable sale.

Data Source(s)

* Identify data source(s) used.

Effective Date of Data Source(s)

* Enter the date the data was published or updated by the source. For example, the local MLS may update their database multiple times during the week or month whereas property transfers at the local land records office may take six or eight weeks to be recorded. The property transfer records may have an effective date that is eight weeks earlier than the appraisal date and the MLS data is within one week of the appraisal date.

Analysis of prior sale or transfer history of subject and comparable sales

* Provide analysis of prior sale or transfer history of the subject and comparable sales.

* Analysis may address changes in property conditions between sale dates or verifying if prior sale was an arm's-length transaction.

Section 9 - Sales Comparison Approach

Comparable Data Pool

The appraiser is required to report the number of comparable properties currently offered for sale, as of the effective date of the appraisal, and the number of comparable sales in the subject neighborhood, within 12 months of the effective date of the appraisal, in this section. Unlike the neighborhood price data, which includes all sales, this section focuses only on those properties that are comparable to the subject, not the universe of sales.

If there was difficulty in locating comparable properties, i.e. the subject is a "high-rise" and it is the only sale within the project in the past 12 months, and one or more of the comparable properties was a "mid-rise" or "garden style", then for purposes of this section, all such properties in the subject's neighborhood are to be treated as comparable and counted.

Field

Protocol

Comparable properties offered for sale

Enter the number of comparable properties currently offered for sale, including those under contract, within the subject neighborhood together with the price range.

Comparable sales

Enter the number of comparable sales that occurred within the 12 month period preceding the effective date of the appraisal, and within the subject neighborhood, together with the price range.

Enter factual data in each field or line.

Field

Protocol

Address and unit #

? Enter the address and unit number for the subject and each comparable sale.

Project Name and Phase

* Enter the project name and phase number for the subject and each comparable sale.

Proximity to Subject

? Enter proximity in straight-line distance and direction. For example, "1.5 miles NE" or "3 blocks south". If comparable distance from the subject is more than a generally accepted distance, or located outside the defined neighborhood boundaries, be sure to explain why the sale is applicable in the "Summary of Sales Comparison Approach" section.

Sale Price

? Enter the purchase price (total paid) for the subject and each of the comparable sales. This means the closed or settled price of the comparable sale.

* If the appraisal involves a refinance of the subject, enter "Refi" as the subject's sale price.

Sale Price / Gross Liv. Area

? Enter price per square foot for the above grade living area for the subject, if a purchase transaction, and each comparable sale.

Data Source(s)

* Enter data source(s) used for sales information.

Verification Source(s)

* Enter verification source(s), the document or party from which the additional proof was obtained. MLS by itself is not considered a verification source.

* Contacting someone with first-hand knowledge of the transaction (agent, broker, buyer, seller, etc.) especially where it involves confirmation of seller concessions is the preferred method of verification.

* A single source may be used if the quality of data is such that sales data are confirmed and verified by settled transactions. Information provided should permit the reader of the report to locate the data from the sources cited.

* Do not use as market data sales that are not verified and adjusted to reflect the terms and conditions of sale.

Value Adjustments

Adjustments are made to the prices of the sale properties for price-influencing dissimilarities between each sale and the subject property. Not all dissimilarities require adjustment because not all dissimilarities achieve price differentials in the market. All adjustments must be extracted from and supported by the actions of the market.

For each adjustment item, enter the description of the adjustment and whether it is an upward or downward adjustment. Do not make an adjustment unless it has a material effect on value.

VALUE ADJUSTMENTS

Field

Protocol

Sales or Financing Concessions

- * Report the type of financing such as Conventional, FHA or VA, etc.
- * Report the type and amount of sales concession for each comparable sale listed. If no concessions exist, the appraiser must note "none."
- * The appraiser is required to make market-based adjustments to the comparable sales for any sales or financing concessions that may have affected the sales price.
- * The adjustment for such affected comparable sales must reflect the difference between the sales price with the sales concessions and what the property would have sold for without the concessions.

Date of Sale / Time

? State month and year of the sale. Showing the contract date and settled date is also acceptable.

- * Time adjustments, if any, must be supported by the market and consistent with the neighborhood market conditions noted. If this is the case, show both the contract date and settled date as any time adjustment should be calculated using the contract date (meeting of the minds) rather than the settled date.

Location

- * Enter the name of the subdivision or PUD. If none is applicable enter the neighborhood name that is commonly used to refer to the property's location.

Leasehold / Fee Simple

? State whether the property was sold as Fee Simple or as a Leasehold Estate. An adjustment is required if the estate differs from the rights appraised for the subject property, and the difference is recognized by the local market.

HOA Mo. Assessment

? Enter the monthly unit charges

- * Any adjustments made for value differences should be explained.

Common Elements

And Rec. Facilities

- * List the common elements and recreational facilities.
- * Adjust for differences where and if warranted.

Floor Location

- * Enter the floor location of the unit.
- * Adjust for any differences attributable to floor location within a project if warranted.

View

? Describe the view from the unit, water view, skyline, etc. Such terms as "Average" or "Good" are only to be used as adjuncts, i.e. "Skyline/Average", "Water view/Good".

- * Make adjustments only if the view is superior or inferior to the subject. If the subject has a superior view and adjustments are made, a photograph of the view amenity is recommended.

Design (Style)

? Enter the style according to a project description used. Be consistent with improvement description.

Quality of Construction

? Enter "Good", "Average", "Fair", etc. using the quality rating from your cost service subscription or provider.

- * Adjustments may also be warranted for interior construction quality and should be explained and justified.

Actual Age

? Enter only the actual age of the subject and each comparable sale.

Condition

? Enter the condition of the subject and comparable sales.

* Only ratings to be used are: "New", "Good", "Average", "Fair" and "Poor"

? Consider any assumed repairs or alterations to the structure and the roof when determining the need for adjustments to the comparable sales.

Above Grade Room Count

? Enter room count, consistent with the description of improvements on the front of the appraisal form.

Up to three adjustments may be entered:

* The first line is for bathroom count differences. A deficiency or surplus in the number of baths should be adjusted first.

* The second line adjustment is for room count.

* The third is for a difference in square footage.

? Explain any property that has an adjustment in both square feet and room count.

Gross Living Area

? Enter the total square footage of the above grade living areas.

Adjustments for differences in square footage should be market derived.

Basement & Finished Rooms Below Grade

? Show full or partial basement with basement finish percentage, i.e. Full 75%, Partial 50%.

? Enter the type of rooms below grade: bedroom, recreation room, laundry, full bath, etc.

* Include below grade improvements found in the subject property or comparable sales.

? Make appropriate adjustments to reflect differences between the comparable sales and the subject property.

? Explain any special features or finishes in the "Summary of Sales Comparison Approach."

* If no basement enter N/A

Functional Utility

? Enter "Equal", "Superior" or "Inferior" as a total of the items rated in the Improvement Analysis compared to the subject. Use the "Summary of Sales Comparison Approach" to explain differences.

? Adjust for functional obsolescence observed in the subject noted in the unit description and not found in the comparable sales.

? Extract dollar adjustments from the market. For example, a poor floor design that includes two bedrooms so that the entrance to one is gained by passing through the other typically requires a negative adjustment for functional obsolescence.

* Floor plan of the subject is required when functional obsolescence is attributable to layout or poor floor plan.

Heating / Cooling

? Enter an adjustment for differences in heating and cooling systems.

Any adjustment should be based on market expectations.

Energy Efficient Items

? Describe energy efficient items: storm windows and doors, solar installations, replacement windows, etc. and enter an adjustment for differences if warranted. If none, so state.

Garage / Carport

? Enter an adjustment for car storage. Calculate adjustments in accordance with market acceptance of carport value versus garage and size (one car, two cars, etc.).

Porch, Patio, Deck

? Enter an adjustment for these features. Base any adjustments on local market expectations.

Blank Lines

? Three blank lines are provided for the appraiser's use to describe additional amenities, features or individual characteristics not listed or addressed elsewhere in the sales grid, e.g. woodstove, fireplace, fencing, other.

* Enter appropriate adjustments where warranted.

Net Adjusted (Total)

? Mark either [+] or [-] box to indicate if the total net adjustments will increase or decrease the value and note by how much. If any adjustment is excessive, review the comparable sales to determine if the best ones were selected. If the total adjustments appear excessive in relation to the sale price; the appraiser should reexamine the comparability of that sale.

? Explain any adjustment that appears to be excessive.

Adjusted Sale Price of Comparables

? Total all of the adjustments and add them to or subtract them from the sales price of each comparable. Generally, adjustments should not exceed 10% for line items, 15% for net adjustments and 25% for gross adjustments. If any adjustments exceed stated guidelines a detailed explanation must be provided including reasons for not using more similar comparable sales.

Summary of Sales Comparison Approach

* Use this section to explain comparable selection;

* Use this section to provide required explanations for subjective adjustments made in any of the following value factors: Location, Site, View, Design, Quality of Construction, Age, Condition and Functional Utility;

* Use this section to explain any adjustments exceeding guidelines;

* Use this section to explain which comparable sale or sales is/are given most weight or consideration and why.

Indicated Value by Sales Comparison Approach

* Enter the Indicated Value

Section 10 - Income Approach

In a single-family residential property, the Income Approach is generally not recognized as a basis for buying by the market. The approach typically provides minimal applicability in the opinion of market value; therefore, the Income Approach is not required for FHA appraisals completed on the Individual Condominium Unit Appraisal Report, Fannie Mae Form 1073. However, if adequate data is available, the Income Approach should be completed.

Income Approach To Value (not required for FHA appraisals)

Field

Protocol

Estimated Monthly

Market Rent

? Enter the subject's estimated market rent and multiply it by the Gross Rent Multiplier (ratio between sales price and gross monthly rental income).

Summary of Income Approach

* Provide support for market rent and GRM if developed.

Section 11- Reconciliation

The appraiser should consider all appropriate approaches to value and all information relevant to the subject property and the market conditions in the opinion of market value.

If there is insufficient space in the reconciliation section to list and describe the "repairs, alterations or required inspections" noted, then the appraiser is instructed to insert a reference in the reconciliation section "see Attached Addendum" and list and describe the items under the heading "Repairs, Alterations, Required Inspections."

Field

Protocol

Indicated Value by:

* Enter the Indicated Value for each of the approaches to value developed. If the approach was not developed, enter "ND or "Not Dev" for not developed.

* Reconcile the approaches to value with a brief description of the validity of each approach with respect to the appraisal assignment.

This appraisal is made

Field

Protocol

Mark this box

"as is"

when:

* There is/are no Property Condition(s) noted.

* Establishing the "as is" value for a regular 203(k) when needed.

This appraisal is made

Mark this box

"per plans & specs"

when the appraisal involves:

* Proposed construction, or

* Under construction, less than 90% complete, or a

* 203(k) with a Plan Review and Specification of Repairs prepared by a 203(k) Consultant.

This appraisal is made

Mark this box

"subject to repairs or alterations"

when the appraisal involves existing housing, or new construction more than 90% complete with only buyer preference items remaining (floor coverings, appliances, landscaping packages (soil must be stabilized to prevent erosion)), requiring repairs or alterations to:

* Protect the health and safety of the occupants

* Protect the security of the property

* Correct physical deficiencies or conditions affecting structural integrity

* Complete buyer preference items for new homes, or to

* Complete repairs/improvements noted in work order or contractor estimates for the Streamline K

* Meet FHA Minimum Property Requirements

The appraiser must indicate the extent of repairs and note this in the appropriate section of the appraisal, or in the "additional comments" section, or in an addendum, under the heading of "Reconciliation – Property Conditions" listing the repairs noted together with an estimated cost to cure.

This appraisal is made

Field

Protocol

Mark this box

"subject to a required inspection"

when the appraisal calls for a required inspection to:

* Certify the condition and/or status of a mechanical or structural element of the property

* Protect the health and safety of the occupants

* Protect the security of the property

* Meet FHA Minimum Property Requirements or Minimum Property Standards

More than one box may be marked depending on the assignment and property conditions.

The appraiser must indicate the reasoning for any required inspections and note this in the appropriate section of the appraisal, or in the "additional comments" section, or in an addendum, under the heading of "Reconciliation - Valuation Conditions" listing the required inspections.

Field

Protocol

The value "subject to completion per plans and specifications", "subject to the following repairs or alterations", or "subject to the following required inspection" must be consistent with the subject property conditions described.

Opinion of Market Value

* Enter the opinion of Market Value

Final Reconciliation

? This entry should contain the appraiser's reasoning for arriving at the final value.

Date of Value

? Enter the date when the property was inspected.

Additional Comments - Addendum

It may become necessary to include commentary that carries beyond the provided space of the appraisal reporting form. The use of an addendum provides the additional space for the appraiser to fully describe any item, area or condition where the commentary exceeds the space provided in other sections of the report. It is recommended that any information carried forward to the addendum, if needed, follow the sequence of the form with a proper heading identifying said section.

For example, the neighborhood "market conditions" comments exceed the space provided on the form. In that case, on page one in neighborhood market conditions enter "See additional comments", in the "additional comments" section enter the heading "Neighborhood Market Conditions" and provide the narrative in this section. Follow the same procedure for any section of the report where commentary exceeds space provided. This will provide the reader with the proper identification and linkage of additional comments together with a logical flow of information in a standardized reporting format.

D-4 Small Residential Income Property Appraisal Report

This section provides specific instructions for completing the Small Residential Income Property Appraisal Report (Fannie Mae Form 1025 March 2005)

This report form is designed to report an appraisal of a two-four unit property, including a two-four unit property in a planned unit development (PUD), based on an interior and exterior inspection of the subject property. A two-four unit property located in a condominium project requires the appraiser to inspect the project and complete the project information section of the Individual Condominium Unit Appraisal Report. This form is not designed to report an appraisal of a manufactured home, therefore, where one or more of the units is a manufactured home, the appraiser is required to complete the following sections of the Manufactured Home Appraisal Report: HUD Data Plate and Improvements sections.

Section 1 - Subject

This section provides the factual data to identify the property and the parties to the appraisal process. The *FHA case number together with *borrower and/or *property information will be supplied by the lender/client who engages the appraiser.

Field

Protocol

*File Number

? Insert the FHA Case Number at the top right corner of the page.

* The FHA appraisal may not be transmitted to the lender without a case number.

*Property Address

? Enter the property street number and name, city, state and zip code for the property. A post office box number is not acceptable. Enter the nearest intersection if a house number is not available.

*Borrower

* Enter the name of the borrower/mortgagor.

Owner of Public Record

* Enter the name of the owner as listed in public records. If the seller is not the owner of public record the appraiser must explain.

County

* Enter the name of the county in which the property is located. It further provides locational parameters.

If not applicable enter "N/A".

Legal Description

? Enter the legal description of the property. The four types of legal descriptions are: lot and block system, geodetic survey, government survey system and metes and bounds system. If the space provided is insufficient, enter this information with the heading "Legal Description" in the "Additional Comments" section of the form report or attach this information as an addendum.

Assessor's Parcel

* Enter the parcel number assigned by the local tax assessor. For those areas that do not have an assessor's parcel number, enter the tax identification number.

Tax Year

* Enter the current tax year used by the locale, e.g. fiscal year or actual year.

R. E. Taxes \$

* Enter the dollar amount of the annual real estate taxes, including all relevant taxes (school district tax, fire district tax, etc.).

Neighborhood Name

* Enter the name of the subdivision, if applicable, or the commonly known local neighborhood designation. If the subject property is in a planned unit development, provide the name of the development.

Map Reference

* Enter location map reference, page number and coordinates, from source used. This reference should relate to the location maps most commonly used in the locale.

Census Tract

* Enter the census tract number. The census tract number must be provided.

* The Census Bureau has an internet resource guide for locating census information. It can be found at URL: www.census.gov

Occupant

* Mark the box signifying the occupancy status at the time of the appraisal.

If vacant, the appraiser should note in the "Improvements" section under "condition of property" whether the utilities were on or off, for each of the units, at the time of the appraisal. If off, condition the appraisal on a satisfactory re-inspection that the utility that was off at the time of the appraisal does not require alteration, repair or further inspection.

Special Assessments \$

* Report the dollar amount of special assessments for the subject property, if any, and provide a brief explanation for the assessment. Special assessments can include municipal bond debt for off-site improvements. Larger than typical special assessments may affect marketability. If not applicable enter "N/A".

PUD HOA\$

? Enter the dollar amount of the HOA fee and mark the box indicating if the fees are paid "per year" or "per month".

Property Rights Appraised

? Mark the appropriate box indicating the property rights appraised for the subject property as of the date of the appraisal. "Other" includes Land Trust.

Assignment Type

* Mark the appropriate box indicating the assignment type.

Lender/Client

Address

? Enter the name of the lender/client who ordered and will receive the appraisal report. After the client's name add "its successors or assigns".

* The use of the appraisal is to support FHA's decision to provide mortgage insurance on the real property that is the subject of the appraisal; therefore, intended users include the lender/client and FHA.

* Enter the lender/client's address.

Currently offered for sale or offered for sale in last 12 months.

* The appraiser's certification states in part "I have researched, verified, analyzed and reported on any current agreement of sale of the subject property, any offering for sale of the subject property in the twelve months prior to the effect date of the appraisal..."

* Mark the appropriate box indicating whether the subject is currently offered for sale or has been offered for sale in the 12-month period prior to the effective date of the appraisal. If there are multiple actions, report each instance. Research may reveal an expired or withdrawn listing. The prior listing may provide a good indication of the upper limit of value.

Report data source(s) used, offering price(s), and date(s)

* Complete this field regardless of whether the property is currently offered for sale or has been for sale in the 12 months preceding the date of the appraisal.

* Identify source(s) used, price(s) and date(s) of current or prior listings.

Section 2 - Contract

This section must be completed when the appraisal assignment involves a purchase transaction, otherwise enter "N/A" for not applicable. FHA requires that the appraiser be provided with a complete copy of the ratified sales contract, including all addenda, for the subject property. It provides the agreed-on contract price (accepted offer), date of sale, and all financial terms implicit in the offer. If unable to obtain this information, the appraiser is to state what efforts were made to obtain it.

Field

Protocol

Analyze Contract for Sale

* Explain the results of the analysis (terms and conditions) of the contract of sale or why the analysis was not performed.

* The analysis may include a reference to the number of pages contained in the contract for sale provided.

Contract Price \$

? Enter the final agreed upon contract price.

Date of Contract

? Enter the date of the contract. This is the date when all parties have agreed to the terms of, and signed the contract.

Is The Property Seller The Owner of Public Record

Data Source(s)

?????Mark the appropriate box indicating whether or not the seller is the owner of public record. The appraiser is instructed to contact the lender/client if the seller is someone other than the owner of record.

The property may not be eligible for FHA financing if it involves flipping (resale in less than 90 days). The lender will make a determination for any exceptions to FHA's Flipping Rule and advise the appraiser.

? Report where the information was obtained.

Sales Concessions Downpayment Assistance

* Mark the appropriate box indicating whether or not there is any financial assistance (loan charges, sales concessions, gift or down payment assistance, etc.) paid by any party on behalf of the borrower. If necessary, use the "Additional Comments" section of the appraisal reporting form or an addendum and enter the heading "Sales Concessions" completing the description.

* If yes, the appraiser is to report the total dollar amount and describe the items to be paid. If the sale involves personal property (e.g. above ground pool, lawn mower, furniture, etc.) is should be identified and excluded from the valuation.

Section 3 - Neighborhood

This section should reflect the area surrounding the subject property. The appraiser must observe neighborhood characteristics and surrounding properties to make determinations that will be incorporated into the valuation of the subject property. In all instances, the appraiser must mark the appropriate box for each line in neighborhood characteristics and housing trends. Failure to note conditions that may adversely affect the value of the property is poor appraisal practice and violates the Uniform Standards of Professional Appraisal Practice.

NOTE: Race and the racial composition of the neighborhood are not appraisal factors.

Neighborhood Characteristics

Field

Protocol

Location

? Enter the type of area surrounding the subject property.

Urban - relates to a city

Suburban - relates to an area adjacent to a city

Rural - relates to the country or beyond the suburban area

Built-up

? Enter the built-up percentage - the percentage of available land that has been improved. Land such as a state park would not be considered available land.

Neighborhood Characteristics

Field

Protocol

Growth

? Enter the growth rate. If many lots are available, the growth rate may be rapid, stable or slow, but if the neighborhood is fully developed, select the "stable" box.

Two-Four Unit Housing Trends

Field

Protocol

Property Values

? Mark the box describing the current trend in property values for Two-Four Unit single family homes in the community. If the subject property is the sole or one of only several 2-4 unit single family homes in the neighborhood or marketplace, indicate this scarcity under market conditions, identify the most predominate housing type in the neighborhood and address trends in value for that identified type. Comparing houses that have been sold and resold in recent years is an effective way to determine market trends. Appraisers who use this method, however, should make sure to factor in any improvements or changes made to the property between sales.

Demand/ Supply

? Mark the appropriate demand/supply trend. If the subject property is the sole or one of only several 2-4 unit single family homes in the neighborhood or marketplace, indicate this scarcity under market conditions, identify the most predominant housing type in the neighborhood and address trends in demand/supply for that identified type. To determine the equilibrium status of supply and demand in the neighborhood, compare the number of 2-4 unit properties sold to the number of 2-4 unit properties listed for sale in a recent time period. The similarity or difference between the numbers of houses sold and listed, not the absolute numbers, should determine the demand/supply level.

Marketing Time

? Mark the appropriate marketing time - the typical length of time a property similar to the subject property would have to stay on the market before being sold at a price near its market value.

Two-Four Unit Housing

Price Age

? Indicate the low and high neighborhood prices and ages as well as the predominant value and age. The high and low for both price and age should exclude the extreme.

Present Land Use %

One-Unit, 2-4 Unit, Multi-Family, Commercial, Other

? Estimate each type of land usage in the neighborhood. If there is no land in the neighborhood with one of the designated classifications, enter a "0". If a portion of the land consists of parks or other unspecified classifications, enter the estimated percentages on the "Other" line and explain in the neighborhood description section.

Neighborhood Narrative

Neighborhood Boundaries

? The appraiser must clearly define the boundaries - north, south, east and west - of the subject's neighborhood. Providing a description of neighborhood boundaries by physical features such as streets, rail lines, other man-made barriers or well defined natural barriers (i.e. rivers, lakes, etc.) details the make up and understanding regarding neighborhood composition.

Neighborhood Description

? Discuss factors that would attract investors or cause them to reject the neighborhood. Some typical factors important to discuss include:

- o Vacancy / rent loss
- o Level of maintenance and condition of homes
- o Housing styles, ages, sizes, etc.
- o Proximity to employment and amenities, including travel distance and time to local employment sources and community amenities
- o Employment stability, in terms of variety of employment opportunities and industries
- o Overall appeal of the neighborhood as compared to competitive neighborhoods in the same market
- o Convenience to shopping with respect to distance, time and required means of transportation
- o Convenience to schools in terms of the distance and time for travel to school

Market Conditions (including support for the above conclusions)

* Provide relevant information in support of conclusions relating to trends in property values, demand/supply and marketing time.

* Provide a description of the prevalence and impact of sales and financing concessions and/or down payment assistance in the subject's market area.

* Other areas of discussion may include days on market, list to sale price ratios, and/or financing availability.

Section 4 - Site

This information provides the description of the land underlying the subject property. Insert factual information on each of the lines provided and report the conclusions as directed. Consider all aspects of the physical description and reconcile them in the opinion of market value. This section of the appraisal requires the appraiser to consider any adverse site conditions or adverse external factors that may impact value.

Field

? Protocol

Dimensions

? List all dimensions of the site beginning with the frontage. If the shape of the site is irregular, show the boundary dimensions (85' X 150' X 195' X 250') or attach a property survey or legal description of the site.

Area

? Enter the site area in square feet or acres. This entry must be consistent with the dimensions provided in the "Dimensions" field.

Shape

? Describe the shape of the site, e.g. triangular, square, rectangular, irregular, flag lot.

View

? Briefly describe the view from the property (None is not an acceptable response).

* Identify a view with a significant positive or negative influence on the value.

* Photographs are recommended for any negative or positive view influences affecting value or marketability.

Specific Zoning Classification

? Enter the specific zoning classification used by the local municipality or jurisdiction, e.g., R-3, R-5.

* If none exists enter "None Exists."

Zoning Description

* Describe what the specific classification means. Include a general statement describing what the zoning permits. For example: R-3 = single family and two-family, up to 3 dwelling units per acre

* If "No Zoning" exists describe the prevalent use of sites in the neighborhood.

Zoning Compliance

? Determine whether the current use is in compliance with the zoning ordinances. Mark the box indicating whether it is a Legal, Legal Non-Conforming (Grandfathered Use), No Zoning, or an Illegal Use.

? If the existing property does not comply with all of the current zoning regulations (use, lot size, improvement size, off street parking, etc.) but is accepted by the local zoning authority, enter "Legal Non-Conforming" and provide a brief explanation.

* If the use is not legal, the property is not eligible for FHA mortgage insurance.

Highest and Best Use

? Mark the appropriate box. This entry represents the highest and best use of the site, as improved, in relation to the neighborhood and current market conditions.

? If current use represents the highest and best use, mark "yes".

? If it does not, mark "no" and provide an explanation.

Utilities

? Mark either "Public" or "Other." If "Other" is marked, describe.

Public utilities mean governmentally supplied and regulated. Public does not include any community systems sponsored, owned or operated by the developer or a private company not subject to government regulation or financial assistance.

? Note if there are mechanical chlorinators or water-flow that decreases noticeably while running simultaneous plumbing fixtures.

* Visually inspect the septic system and its surrounding area. If there are obvious or readily observable signs of system failure, "require inspection" to ensure that the system is in proper working order.

Note: The appraiser shall indicate whether a public water or sewage disposal system is available to the site. If available, connection must be made to public or community water/sewage disposal system if connection costs are reasonable. The lender will determine whether connection is feasible.

Off-site Improvements-Type

? Briefly describe the off-site improvements under "Type" and enter road surface material and mark Public or Private. For example: "Street-Asphalt; Public", "Alley-None"

? Public refers to an improvement dedicated to and accepted by a unit of government - not including Home Owner's Associations.

FEMA Special Flood Hazard Area

? FEMA (Federal Emergency Management Agency) is responsible for mapping flood hazard areas. If the property is within a Special Flood Hazard Area, mark "YES". Otherwise, mark "NO".

? Attach a copy of the flood map panel for properties located within an identified flood hazard area.

FEMA Flood Zone

? Enter the FEMA Zone designation. Only properties within Special Flood Hazard Areas, such as zones "A" a special flood hazard area and "V" a coastal area, require flood insurance. Zones "B" "C" and "X" do not.

FEMA Map # and FEMA Map Date

? Enter the FEMA Map number and map date. If it is not shown on any map, enter "Not Mapped."

Are utilities and off site improvements typical for the market area

* Mark the appropriate box indicating whether the utilities and off-site improvements are typical for the market area.

* If "No" is marked, explain why the utilities and/or off site improvement are not typical.

Any adverse site conditions or external factors

? Mark the appropriate box indicating whether there are any adverse site conditions or external factors (easements, encroachments, environmental conditions, land uses, etc.).

* If "No" is marked, no comment is necessary, if "Yes" is mark, an explanation is required.

* Describe any adverse site conditions or adverse factors. Consider easements affecting the functional utility of the property in the conclusions of both the highest and best use and market value. For example, discuss adverse easements, encroachments, slide areas, illegal or non-conforming zoning use, etc.

Consider surface, sub-surface and overhead easements.

* List any adverse environmental conditions, including hazardous wastes, toxic substances and others.

* Explain all deficiencies that do not require repair (extreme slope, etc.) and consider them in the opinion of value.

? Discuss the observations with direct relationship to value and consider them in the approaches to value.

Section 5 - Improvements

This section describes the subject improvements. Accurately report the conditions observed. Describe needed repairs, or the existence of any functional or external obsolescence. Enter factual information on each of the lines provided and report the conclusions. Consider all aspects of the physical description and reconcile them in the opinion of market value.

General Description

Field

Protocol

Units

? Mark the appropriate box indicating number of units.

Accessory Unit

* A 2-4 unit dwelling with an accessory unit is ineligible for FHA financing.

of Stories

? Enter the number of stories above grade, including half stories. Do not include the basement.

of Buildings

* Enter number of buildings.

Type

? Mark the box that identifies the type of dwelling, "Det." (Detached), "Att." (Attached), "S-Det." (Semi-Detached) or "End Unit" (End unit of a group of rowhouses or townhouses).

Stage of Construction

? Mark the box signifying the stage of construction, Existing, Proposed or Under Construction. Properties that are either Proposed or Under Construction require plans and specifications for the appraiser to review.

Design (Style)

? Enter a brief description of the house design style using historical or contemporary fashion. For example: Cape Cod, bi-level, split level, split foyer, colonial, town house, rowhouse, etc. Do not use builder's model name.

Avoid generic descriptions such as Traditional or Conventional.

Year Built

? If the property is less than one year old, include both the month and year completed.

? If it is over one year old, insert the year completed.

Effective Age (Yrs)

? Enter the effective age of the improvements. A range is acceptable.

The effective age reflects the condition of the property relative to similar competitive properties. The effective age may be greater than, less than or equal to the actual age.

? Note any significant difference between the actual and effective ages and explain in the "condition of property" comments section.

Attic - Enter the attic and observe the interior roofing for insulation, deficient materials, leaks or readily observable evidence of significant water damage, structural problems, previous fire damage, FRT sheathing, exposed and frayed wiring and adequate ventilation by vent, fan or window. If any of these deficiencies exist, condition the appraisal on their repair and prepare the appraisal "subject to repairs" and/or "subject to inspection".

The attic must be entered, at a minimum, by head and shoulders, whether access is by pull-down stairway or scuttle. Size of the scuttle and accessibility of the attic dictate the level of entry.

Field

Protocol

None

Enter 'X' if there is no attic.

Drop Stair

Enter "X" if this item exists.

Stairs

Enter "X" if this item exists.

Floor

Enter "X" if this item exists.

Scuttle

Enter "X" if this item exists.

Finished

Enter "X" if this item exists.

Heated

Enter "X" if the attic is heated.

Foundation

The appraiser is required to inspect the foundation and basement. The appraiser must address all visible deficiencies and may require a recommendation for an inspection. Consider deferred maintenance and physical deterioration in the valuation process.

Basement

Generally, may be partially or completely below grade (ground level). Do not count the basement in the finished gross living area at the grade level. The information provided must be consistent with the description in the Foundation section. If basement is finished and has a grade walk out entrance, count square foot GBA.

Foundation

Field

Protocol

Concrete Slab

* Mark this box if any part of the foundation system has concrete slab.

Crawl Space

* Mark this box if any part of the foundation system has crawl space.

* Access to the space should be clear. Examine the crawl space for inadequate access (minimum entry of the head and shoulders).

* Check the distance from the bottom of floor joists to ground. Space should be adequate for maintenance and repair. A minimum distance of 18 inches from the ground to the bottom of the joists is highly recommended but not mandated.

* Check for insulation, and ventilation or for any structural problems. The support beams should be intact and of structural soundness.

Full Basement

* Mark this box if there is a full basement.

Partial Basement

* Mark this box if there is a partial basement.

* For a dirt basement floor, determine whether such a property is typical for the area and is readily marketable. If so, it is not required that a concrete basement floor be installed. Mechanical equipment, however, must be located on a concrete pad.

Basement Area Sq Ft

* Enter the square footage of the basement area using exterior dimensions.

Basement Finish %

* Enter the percentage of basement (figure above) that is finished.

Outside Entry/Exit

* Mark this box only if there is an outside entry/exit, otherwise leave blank.

* In there is an entry, make sure door is operable.

Sump Pump

? Mark this box only if there is a sump pump, otherwise leave blank.

Evidence of

Infestation

* Mark this box if there is evidence of infestation, including the house and/or other structures within the legal boundaries of the property, otherwise leave blank.

? Examine the subject property for readily observable evidence of wood boring insect.

* Do not require a pest inspection based solely on the age of a property. Inspections are necessary whenever there is evidence of decay, pest infestation, suspicious damage or when it is customary to the area or required by state law.

Evidence of Dampness

? Mark this box if there evidence of dampness, otherwise leave blank.

* Examine the foundation/basement for dampness or readily observable evidence of water damage.

Signs of past water problems may include efflorescence, mold, mildew or stains on walls or mechanical equipment.

* Basement or crawl space area must not have excessive dampness or ponding of water.

* If any of these inadequacies exist, condition the appraisal "subject to repairs" to correct the condition, or "subject to inspection" to determine the source of problem and corrective measures necessary by a qualified party.

Evidence of Settlement

? Mark this box if there is evidence of settlement, otherwise leave blank.

?????Examine foundation for readily observable evidence of settlement.

* Hairline step-cracks are common, however, horizontal cracks, bulging walls or separation of sill plate from top of foundation wall are critical and require inspection.

Mechanical Systems

An appraiser must examine the mechanical, plumbing and electrical systems of the subject property to ensure that they are in proper working order. This examination entails turning on the applicable systems and observing their performance. Electrical, plumbing and/or heating certifications may be called for by the appraiser when he/she cannot determine if one or all of these systems are working properly. An appraiser should not arbitrarily call for such certifications. However, the appraiser is still responsible for checking the functionality of these systems at the time of appraisal. Note the type of heating and cooling for each unit, if different.

Heating and Cooling Systems

Field

Protocol

Heating

? Enter an "X" in the box indicating the type of heating system: FWA (forced warm air), HWBB (hot water baseboard), Radiant or "Other". If "Other" is marked, provide a brief description, e.g. EBB (for electric baseboard).

* Turn on the furnace/heating system to test functionality, weather permitting, and that no unusual noises are heard, no odors or smoke are emitted indicating a defective unit, etc. However, do not operate the systems if doing so may damage equipment or when outside temperatures will not allow system to operate.

* Note significant holes/deterioration on the unit.

* Turn on the hot water to ensure that the water heater is operating appropriately.

Fuel

? Enter type of fuel used: coal, gas, oil, propane, electric, etc.

Cooling

* Enter an "X" in the box indicating the type of cooling system: Central Air Conditioning, Individual or Other. If "Other" is marked, provide a brief description, e.g. permanently affixed fans, zoned air-conditioning, etc.

Heating and Cooling Systems

Field

Protocol

Cooling

* Turn on the air conditioning system to test functionality, weather permitting, and that no unusual noises are heard, no odors or smoke are emitted indicating a defective unit, etc. However, do not operate the

systems if doing so may damage equipment or when outside temperatures will not allow system to operate.

* Note significant holes/deterioration on the unit

Exterior Materials/Condition

Enter the types of Materials and rate the observed Condition of the Materials (Good, Average, Fair, and Poor). Make every effort to describe accurately and explain in detail "Fair" and "Poor" ratings and whether or not the item(s) described require repair, replacement or further inspection. The rating must relate to the habitability of the house given local standards (Photo documentation of property condition is always advisable).

Exterior Description
materials/condition

Field

Protocol

Foundation Walls

* Enter the material type: poured concrete, block, brick, stone, treated wood, etc. and rate the observed condition.

Exterior Walls

? Enter the material type: aluminum, vinyl or wood siding, brick veneer, stucco, stone, etc. If a combination of materials, show the predominant portion first and rate the observed condition.

Roof Surface

? Enter the material type: composition shingle, asphalt shingle, wood, slate, clay tile, aluminum, built-up, etc. and rate the observed condition.

* View the roof from ground level to determine if the integrity of the roof is sufficient.

* If the roof is otherwise unobservable, look for telltale signs of roof problems on the interior such as damage or water stains to ceiling area of a room or closet.

* Observe roof coverings, roof drainage systems, flashing, skylights, chimneys for readily observable evidence of leakage or abnormal condensation on building components.

* Note any evidence of deterioration of roofing materials (missing tiles, shingles, flashing). Deteriorated roofing materials include those that are worn, cupped, or curled.

* The appraiser must note in the appraisal that he/she could not adequately observe the entire roof area (state which area(s) were unobservable). Based on the information reported by the appraiser, the underwriter will determine whether or not a roofing inspection is required.

Gutters and Downspouts

? Enter the material type: galvanized, aluminum, plastic, vinyl, PVC, etc. and rate the condition observed.

Exterior Description
materials/condition

Field

Protocol

Window Type

? Enter window type: Double Hung, Single Hung, Casement, Sliders, etc. and identify the window frame material: wood, aluminum, steel, vinyl, etc. Rate the condition observed. Bedroom windows with security bars require a quick release mechanism for emergency egress. If not so equipped, condition the appraisal on a "required repair".

Storm Sash / Insulated

? Describe storm sash material or state if windows are double glazed, etc. or a combination of the two. Rate the condition observed. If none, so state.

Screens

* Describe style (full, half, none) and rate the condition observed.

A brief description of an amenity may include its material type and/or size and/or dimensions.

Amenities

Field

Protocol

Fireplace(s)

* Enter "X" if this amenity exists and provide a specific number.

Woodstove

* Enter "X" if this amenity exists and provide a specific number.

Patio/Deck

* Enter "X" if this amenity exists. Describe material/type in additional features.

Fence

* Enter "X" if this amenity exists. Describe material/type in additional features.

Pool

* Enter "X" if this amenity exists. Describe in additional features. Specify whether in-ground or above-ground. Above-ground pools are considered personal property and are not to be included in the value.

Porch

* Enter "X" if this amenity exists. Describe material/type in additional features.

Other

* Enter "X" if this line is used to report another amenity or salient feature not listed above that has contributory value. Describe "Other" in additional features. Be sure to compare the subject and comparable sales in relation to that amenity or feature and make the appropriate adjustments.

Interior Materials/Condition

Enter the types of Materials and rate the observed Condition of the Materials (Good, Average, Fair, and Poor) and whether or not the item(s) described require repair, replacement or further inspection. Make every effort to describe accurately and explain in detail "Fair" and "Poor" ratings. The rating must relate to the habitability of the house given local standards (Photo documentation of property condition is always advisable). If the condition of materials varies significantly between the different units, address each unit separately. Use the Additional Comment section on page 4 if necessary.

Interior

materials/condition

Field

Protocol

Floors

* Enter material type - tile, hardwood, carpet, etc. - and rate condition observed.

Walls

?????Enter material type - plaster, drywall, paneled etc. - and rate condition observed.

Trim/Finish

? Enter material type - wood, metal, vinyl - and rate condition observed.

Interior

materials/condition

Field

Protocol

Bath Floor

? Enter material type - ceramic tile, vinyl, carpet - and rate condition observed

Bath Wainscot

? Enter material type that protects walls from moisture - ceramic tile, fiberglass, etc. - and rate condition observed.

Car Storage

Field

Protocol

None

* If the property does not have a garage, carport or driveway, mark "NONE".

Driveway # of Cars

* If applicable, mark the box and enter the number of cars that can be parked. A single lane driveway is considered to be a one-car driveway. It would be considered a two car driveway if either car can be moved without disturbing the other.

Driveway Surface

* Enter surface type: concrete, gravel, macadam, etc., if none so state.

Garage # of Cars

* Enter the number of cars the structure can accommodate.

Carport # of Cars

* Enter the number of cars the structure can accommodate.

Garage/Carport Type

* If there is a garage, designate whether it is "Attached", "Detached" or "Built-in" and Enter an "X" in the box(es) indicating the style "Att.", "Det.", "Built-in"

Appliances

Field

Protocol

Refrigerator

Enter the number of refrigerators, enter 0 if none.

Range/Oven

Enter the number of range/ovens, enter 0 if none.

Dishwasher

Enter the number of dishwashers, enter 0 if none.

Disposal

Enter the number of disposals, enter 0 if none.

Microwave

Enter the number of microwaves, enter 0 if none.

Washer/Dryer

Enter the number of washer/dryers, enter 0 if none.

Other

Enter "X" for any other appliances not listed above and describe. Do not include personalty. Enter "none" if applicable.

Gross Living Area

The gross living area is obtained by drawing an imaginary line on the outside perimeter walls of each unit (similar to the method used to measure a single family dwelling). Do not include attic or basement areas that may be assigned to a unit.

Gross Building Area

The gross building area is the total finished area (including common areas - hallways, interior stairways, etc.) of the improvements, above and below grade, based upon exterior measurements. Use same method for calculating GBA of comparable sales and rentals.

Room Count and Square Feet of Gross Living Area

Field

Protocol

To complete this section

- * Enter, for each unit, the total number of rooms, the total number of bedrooms, and the total number of bathrooms.
- * Enter the total square footage of the gross living area for each unit.
- * If a unit is located in the basement but has a walk-out at grade entrance, included it in the gross building area.

Narrative Comments Section

The completion of this section is critical to the opinion of market value. The appraiser must discuss all adverse conditions and observed physical and functional deficiencies noted. If necessary, use the Additional Comments section of the form report, or an addendum, for additional discussion or description.

Field

Protocol

Additional Features

- ? Use this space to describe special energy efficient features such as solar energy or geothermal systems and/or to further describe the additional features,
 - ? Please elaborate on any special or unusual aspects of items, e.g. gas fireplace or wood burning fireplace, in-ground pool, etc. Condition of the property (including needed repairs, deterioration, renovations, remodeling, etc.)
 - ? Describe any physical deterioration and/or functional or external depreciation noted at the property.
 - ? Provide a conclusion as to the overall condition of the improvements that is supported by the previous descriptive sections.
 - * Describe needed repairs.
- Physical deficiencies or adverse conditions

* Enter an "X" in the applicable box indicating whether or not there are any physical deficiencies or adverse conditions that affect the livability, soundness, or structural integrity of the property. If the response is "No", no explanation is required or needed. However, if the response is "Yes", a full and detailed explanation is required and, if necessary, condition the appraisal on the "repair or alteration of the condition" or a "required inspection" by appropriately qualified individuals or entities, which may include professional engineers, tradespersons, HUD Fee Inspectors.

Lead-Based Paint Hazard

- * If the home was built before 1978, this may indicate a lead paint hazard. For all FHA insured properties, correction is required to all defective paint in or on structures and/or property improvements built before January 1, 1978 in accordance with 24 CFR Part 35.
- * Observe all interior and exterior surfaces, such as walls, stairs, deck porch, railing, windows or doors for defective (chipping, flaking or peeling) paint. (Exterior surfaces include surfaces on fences, detached garages, storage sheds and other outbuildings and appurtenant structures.). Note any areas affected (be specific) and condition the appraisal on their repair subject to the satisfaction of the condition.

Property conformity

- * Enter an "X" in the applicable box indicating whether or not the subject generally conforms to the neighborhood (functional utility, style, condition, use, construction, etc.). If the response is "Yes", no explanation is required or needed. However, if the response is "No", a full and detailed explanation is required.

Subject to Rent Control

- * Enter an "X" in the applicable box indicating whether property is subject to rent control
- * If yes, indicate ceilings on rent and any other pertinent controls.

Section 6 - Comparable Rental Data

The appraiser is required to report information on the subject and three comparable rental properties. Ideally, the properties used for comparable rentals will not be the same as those used in the Sales Comparison Analysis.

Enter factual data in each field or line.

The following properties represent the most current, similar, and proximate comparable rental properties to the subject property. The analysis is intended to support the opinion of market rent for the subject property.

Field

Protocol

Address

? Enter the address that can be used to locate each property. Enter community, if needed, to identify property. For rural properties, list location by road name, nearest intersection and side road.

Proximity to Subject

? Enter proximity in straight-line distance and direction. For example, "1.5 miles NE" or "3 blocks south". If comparable distance from the subject is more than a generally accepted distance, or located outside the defined neighborhood boundaries, be sure to explain why the sale is applicable in the "Summary of Sales Comparison Approach" section.

Current Monthly Rent

? Enter current monthly rent for the subject and each of the comparable rentals.

.

Rent/Gross Bldg. Area

? Enter Rent/Gross Bldg Area for the subject and each of the comparable rentals.

Rent Control

* Enter an "X" in the applicable box indicating rent control or not

Data Source(s)

* Enter data source(s) used for sales and property information

Date of Lease(s)

* Enter the date of lease for each of the subject units as well as the comparable rentals.

Location

* Enter the neighborhood name that is commonly used to refer to the property's location.

* Location adjustments may be warranted for positive or negative factors that influence market rent such as busy street versus a quiet street.

* Explain any adjustments made in this area.

Actual Age

* Enter only the actual age of the subject and each comparable rental.

Field

Protocol

Condition

* Enter the condition of the subject and comparable rental.

* Ratings to be used are: "New", "Good", "Average", "Fair" and "Poor" or a combination if more accurate.

* Consider required repairs or alterations, to the subject, completed when determining the need for adjustments to the comparables rentals.

Gross Building Area

* Enter the total Gross Building Area for the subject and each comparable.

Unit Breakdown

* Enter total room count, number of bedrooms, number of baths and size for each unit in the subject.

* Enter total room count, number of bedrooms, number of baths, size in square feet, and the monthly rent for each unit in each of the three comparable rentals.

* Enter room count, total square footage and monthly rent for each of the comparable rentals.

Utilities included

* Indicate which utilities, if any, (electric, water, heat, etc.) are included in the rent for the subject and the comparable rentals.

Analysis of rental data and support for estimated market rents

* Provide analysis of rental data collected.

* Provide support for estimated market rents for the subject units.

* Discuss the adequacy of the comparable rentals.

* Address rental concessions if applicable.

Section 7 - Subject Rent Schedule

The appraiser is required to report information on the subject leases and provide an opinion of market rent.

Rent Schedule: The appraiser must reconcile the applicable indicated monthly market rents to provide an opinion of the market rent for each unit in the subject property.

Leases

* Provide the starting and termination dates of the leases for each unit of the subject.

* Provide comments on lease data, i.e. terms and conditions.

*

Actual Rent

* Enter the rent for each unit, unfurnished or furnished, and then the total rent.

* Enter the total actual monthly rent for all units

* Enter any other monthly income. Itemize this information in the comments section below.

* Enter the total actual monthly income.

Total Actual Rent

Other Income

Total Actual Income

*

Opinion of Market Rent

* Enter opinion of market rent for each unit, unfurnished and furnished, and then the total rent.

* Enter the total estimated market rent for all units.

* Enter any other monthly income. Itemize this information in the comments section below, e.g. coin operated washers and dryers, garage rented for storage, etc.

* Enter the total estimated monthly income.

Gross Monthly Rent

Other Income

Total Est. Income

*

Utilities included in estimated rents

* Enter an "X" in the box indicating the applicable utility items included in the rent.

* If the "other" box is marked, describe.

Comments on actual or estimated rents

* Provide comments on actual or estimated rents and other monthly income (including personal property) such as itemizing other monthly income; differences, or lack thereof, between actual rent and market rent.

Section 8 - Prior Sale History

Field

* Protocol

Research sale or transfer history of subject & comps

* Enter an "X " in the applicable box indicating whether you "did" or "did not" research the sale or transfer history of the subject property and comparable sales. If not, provide explanation.

Research prior sales or transfers of subject property

* Enter an "X " in the applicable box indicating whether your research "did" or "did not" reveal any prior sales or transfers of the subject property for the three years prior to the effective date of this appraisal.

Data Source(s)

* Enter data source(s) used for sale and transfer information.

* Appraisers are to be familiar with the data source(s), e.g. how the data is gathered and how often it is updated

Research prior sales or transfers of comparable sales

* Enter an "X " in the applicable box indicating whether your research "did" or "did not" reveal any prior sales or transfers of the comparable sales for the year prior to the date of sale of the comparable sale.

Data Source(s)

* Enter data source(s) used for sales and transfer information. Two sources are recommended for researching prior sales and transfers, local MLS and local public records at a minimum.

* Appraisers should be familiar with the data source(s), e.g. how the data is gathered and how often it is updated.

Report the results of the research and analysis of the prior sale or transfer history of the subject property and comparable sales (report additional prior sales in the "Additional Comments" section or an addendum).

Field

* Protocol

Date of Prior Sale/Transfer

* Report the date(s) of prior sale(s) or transfer(s) of the subject that occurred within three years of the effective date of the appraisal.

* Report the date(s) of prior sale(s) or transfer(s) of each comparable sale for the year prior to the date of the comparable sale.

Price of Prior Sale/Transfer

* Report the price of the prior sale(s) or transfer(s) of the subject that occurred within three years of the effective date of the appraisal.

* Report the price of the prior sale(s) or transfer(s) of each comparable for the year prior to the date of the comparable sale.

Data Source(s)

* Identify the data source(s) used.

Effective Date of Data Source(s)

* Enter the date the data was published or updated by the source for the subject and comparable sales.

For example, the local MLS may update their database multiple times during the week or month whereas property transfers recorded at the local land records office may take six or eight weeks after settlement.

The property transfer records may have an effective date that is eight weeks earlier than the appraisal date and the MLS data is within one week of the appraisal date.

Field

* Protocol

Analysis of prior sale or transfer history of subject and comparable sales

* Provide analysis of prior sale or transfer history of the subject and comparable sales.

* Analysis may address changes in property conditions between sale dates or verifying if prior sale was an arm's-length transaction.

Section 9 - Sales Comparison Approach

The appraiser is required to report the number of comparable properties currently offered for sale, as of the effective date of the appraisal, and the number of comparable sales in the subject neighborhood, within 12 months of the effective date of the appraisal, in this section. Unlike the neighborhood price data, which includes all sales, this section focuses only on those properties that are comparable to the subject, not the universe of sales.

If there was difficulty in locating comparable properties, i.e. the subject is a four unit single family property and one or more of the comparable properties was a two or three unit single family property, etc., then for purposes of this section, all such properties in the subject's neighborhood are to be treated as comparable and counted.

Field

Protocol

Comparable properties offered for sale

* Enter the number of comparable properties currently offered for sale, including those under contract, within the subject neighborhood together with price range

Comparable sales

* Enter the number of comparable sales that occurred within the 12 month period preceding the effective date of the appraisal, and within the subject neighborhood, together with the price range

Field

Protocol

Address

* Enter the address that can be used to locate each property. Enter community, if needed, to identify property. For rural properties, list location by road name, nearest intersection and side road.

Proximity to Subject

* Enter proximity in straight-line distance and direction. For example, "1.5 miles NE" or "3 blocks south". If comparable distance from the subject is more than a generally accept distance, or located outside the defended neighborhood boundaries, be sure to explain why the sale is applicable in the "Summary of Sales Comparison Approach " section.

Sale Price

* Enter the purchase (total paid) for the subject and each of the comparable sales. This means the closed or settled price of the comparable sale.

* If the appraisal involves a refinance of the subject, enter "Refi" as the subject's sale price.

Sale Price/Gross Bldg. Area

* Enter price per square foot of the gross building area for the subject, if a purchase transaction, and each comparable sale.

Gross Monthly Rent

* Enter the Gross Monthly Rent for the subject property and each comparable sale.

Gross Rent Multiplier

* Enter the Gross Rent Multiplier for the subject property and each comparable sale. A manual check on the software calculations is recommend to test for accuracy as the appraiser is responsible for data contained in the report (Sale price divided by gross monthly rent).

Price Per Unit

* Enter Price Per Unit for the subject property and each comparable.

Price Per Room

* Enter Price Per Room for the subject property and each comparable.

Price Per Bedroom

* Enter Price Per Bedroom for the subject property and each comparable.

Rent Control

* Enter an "X" in the box indicating whether or not there is Rent Control.

Data Source(s)

* Enter data source(s) used for sales and property information for each comparable.

Verification Source(s)

* Enter verification source(s), the document or party from which the additional proof was obtained. MLS by itself is not considered a verification source.

* Contacting someone with first-hand knowledge of the transaction (agent, broker, buyer, seller, etc) especially where it involves confirmation of seller concessions, is the preferred method of verification.

* A single source may be used if the quality of data is such that sales data are confirmed and verified by settled transactions. Information provided should permit the reader of the report to locate the data from the source cited.

Verification Source(s)

* Do not use as market data sales that are not verified and adjusted to reflect the terms and conditions of sale.

Value Adjustments

Adjustments are made to the price of the sale properties for price-influencing dissimilarities between each sale and the subject property. Not all dissimilarities require adjustment because not all dissimilarities achieve price differentials in the market. All adjustments must be extracted from and supported by the actions of the market.

For each adjustment item, enter the description of the adjustment and whether it is an upward or downward adjustment. Do not make an adjustment unless it has a material effect on value. Make adjustments only if the dissimilarity has a noticeable effect on the value. Small differences do not usually require adjustments.

VALUE ADJUSTMENTS

Field

Protocol

Sales or Financing Concessions

* Report the type of financing such as Conventional, FHA or VA, etc.

* Report the type and amount of sales concession for each comparable sale listed. If no concessions exist, the appraiser must note "none."

* The appraiser is required to make market-based adjustments to the comparable sales for any sales or financing concessions that may have affected the sales price.

* The adjustment for such affected comparable sales must reflect the difference between the sales price with the sales concessions and what the property would have sold for without the concessions.

Date of Sale / Time

? State month and year of settlement. Showing the contract date and settled date is also acceptable.

* Time adjustments, if any, must be supported by the market and consistent with the neighborhood market conditions noted. If this is the case, show both the contract date and settled date as any time adjustment should be calculated using the contract date (meeting of the minds) rather than the settled date. Explanation is required for any time adjustments.

Location

* Enter the name of the subdivision or PUD. If none is applicable enter the neighborhood name that is commonly used to refer to the property's location.

* Location adjustments may be warranted for positive or negative factors that influence sales price such as busy street versus quiet street.

* Explain any adjustments made in this area.

Leasehold / Fee Simple

? State whether the property was sold as Fee Simple or as a Leasehold Estate. An adjustment is required if the estate differs from the rights appraised for the subject property.

Site

? Enter the site size. Make adjustments only for measurable differences. Small differences in lot sizes do not usually call for an adjustment if the size is typical.

? If necessary, consider the possibility of excess or surplus land.

View

? Describe the view from the site, i.e. similar homes, commercial area, water view, scenic view, etc. Such terms as "Average" or "Good" are only to be used as adjuncts, i.e. "Residential/Average", "Water view/Good".

* Make adjustments only if the view is superior or inferior to the subject.

* If the subject has a superior view and adjustments are made, a photograph of the view amenity is recommended.

Design (Style)

? Enter the style according to a description used by local custom. Be consistent with improvement description.

Quality of Construction

? Enter "Good", "Average", "Fair", etc. using the quality rating from your cost service subscription or provider.

* Adjustments may be warranted for construction quality and should be explained.

Actual Age

? Enter only the actual age of the subject and each comparable sale.

Condition

? Enter the condition of the subject and comparable sales.

* Ratings to be used are: "New", "Good", "Average", "Fair" and "Poor" or a combination if more accurate.

? Consider required repairs or alterations to the subject completed when determining the need for adjustments to the comparable sales.

Gross Building Area

? Enter the total Gross Building area for the subject and each comparable.

Unit Breakdown

* Enter room count per unit, consistent with the description of improvements on the front of the form.

* Enter room count for the units in each of the comparable sales and make adjustments where warranted.

* Explain adjustments in the Summary of Sales Comparison.

Basement Description

* Enter description of basement, total square footage of basement area and/or enter percentage of basement in relation to first floor area or enter full, partial, none.

Basement Finished Rooms

? Enter the type of rooms below grade: bedroom, recreation room, laundry, full bath, etc.

?????Make sure any adjustment made here have not been duplicated in the GBA or elsewhere.

Functional Utility

? Enter "Equal", "Superior" or "Inferior" as a total of the items rated in the Improvement Analysis compared to the subject. Use the "Summary of Sales Comparison Approach" to explain differences.

? Adjust for functional obsolescence observed in the subject and not found in the comparables.

Heating / Cooling

? Enter type of heating and cooling systems, e. g. Gas FWA C/Air.

* Any adjustment for differences in heating and cooling systems should be based on market expectations.

Energy Efficient Items

? Describe energy efficient items: storm windows and doors, solar installations, replacement windows, etc. and enter an adjustment for differences if warranted. If none, so state.

Parking on/off Site

?????Enter description of on/off site parking. Calculate adjustments in accordance with market acceptance of on/off site parking.

Porch, Patio, Deck

? Enter these features for the subject and comparable sales if they exist. Base any adjustments on local market expectations.

Blank Lines

? Three blank lines are provided for the appraiser's use to describe additional amenities, features or individual characteristics not listed or addressed elsewhere in the sales grid, e.g. woodstove, fireplace, fencing, pool or other.

* Enter appropriate adjustments. For example, a pool located in an area that expects pools might bring a dollar premium in comparison to a comparable without a pool.

Net Adjusted (Total)

? Mark either [+] or [-] box to indicate if the total net adjustments will increase or decrease the value and note by how much. If any adjustment is excessive, review the comparable sales to determine if the best ones were selected. If the total adjustments appear excessive in relation to the sale price; the appraiser should reexamine the comparability of that sale.

? Explain any adjustment that appears to be excessive.

Adjusted Sale Price of Comparables

? Total all of the adjustments and add them to or subtract them from the sales price of each comparable. Generally, adjustments should not exceed 10% for line items, 15% for net adjustments and 25% for gross adjustments. If any adjustments exceed stated guidelines an explanation must be provided including reasons for not using more similar comparable sales.

Adjusted Price Per Unit

* Enter adjusted price per unit for each comparable sale (adjusted sale price divided by number of units).

Adjusted Price Per Room

* Enter adjusted price per room for each comparable sale (adjusted sale price divided by number of rooms).

Adjusted Price Per Bedroom

* Enter adjusted price per bedroom for each comparable sale (adjusted sale price divided by number of bedrooms).

Value Per Unit

* Enter adjusted price per unit and multiply by number of units = estimated value.

Value Per GBA

* Enter price per gross square foot of building area and multiply by gross square feet of building = estimated value

Value Per Room

* Enter adjusted price per room and multiply by number of rooms = estimated value.

Value Per Bedroom

* Enter adjusted price per bedroom and multiply by number of bedrooms = estimated value.

Summary of Sales Comparison Approach

* Explain comparable selection and any necessary explanation of adjustments.

* Explain any adjustments exceeding guidelines.

* The appraiser must reconcile the above value indicator(s) and comment which were given most consideration and why.

Indicated Value by Sales Comparison Approach

* Enter the indicated value by Sales Comparison Approach.

Section 10 - Income

Sale price divided by gross monthly rent = Gross Rent Multiplier

Gross Monthly Rent

- * Enter the gross monthly rent developed in the Opinion of Market Rent.
- * Multiply the gross monthly rent by the gross rent multiplier to arrive at the indicated value by the Income Approach.

Comments on Income Approach

- * Provide comments on Income Approach including reconciliation of the GRM.
 - o Reconcile the multipliers developed in the sales comparison analysis
 - o Judge comparability and applicability of each
 - o Do not average, account for differences

Section 11 - Reconciliation

The appraiser should consider all appropriate approaches to value and all information relevant to the subject property and the market conditions in the opinion of market value.

If there is insufficient space in the reconciliation section to list and describe any "repairs, alterations or required inspections" noted, then the appraiser is instructed to insert a reference in the reconciliation section "see Additional Comments section on the next page" and then list and describe the items under the heading "Repairs, Alterations, Required Inspections". If necessary, due to space limitations, use an addendum with the same heading.

Field

Protocol

Indicated Value by:

- * Enter the Indicated Value for each of the approaches to value developed.
- If the approach was not developed, enter "ND or "Not Dev" for not developed.
- * Reconcile the three approaches to value with a brief description of the validity of each approach with respect to the appraisal assignment.

This appraisal is made

Field

Protocol

Mark this box

"as is"

when:

- * There is/are no repair(s), alteration(s) or inspection condition(s) noted.
- * Establishing the "as is" value for a regular 203(k) when needed.
- * The property is ineligible for FHA financing and is being rejected.

This appraisal is made

Mark this box

"per plans & specs"

when the appraisal involves:

- * Proposed construction, or
- * Under construction, less than 90% complete, or a
- * 203(k) with a Plan Review and Specification of Repairs prepared by a 203(k) Consultant.

This appraisal is made
Mark this box
"subject to repairs or alterations"

when the appraisal involves existing housing, or new construction more than 90% complete with only buyer preference items remaining (floor coverings, appliances, landscaping packages (soil must be stabilized to prevent erosion)), requiring repairs or alterations to:

- * Protect the health and safety of the occupants
- * Protect the security of the property
- * Correct physical deficiencies or conditions affecting structural integrity
- * Complete buyer preference items for new homes, or to
- * Complete repairs/improvements noted in work order or contractor estimates for the Streamline K
- * Meet FHA Minimum Property Requirements

The appraiser must indicate the extent of repairs and note this in the appropriate section of the appraisal, or in the "additional comments" section, or in an addendum, under the heading of "Reconciliation – Required Repairs" listing the repairs noted together with an estimated cost to cure.

This appraisal is made
Field
Protocol
Mark this box
"subject to a required inspection"

when the appraisal calls for a required inspection to:

- * Certify the condition and/or status of a mechanical or structural element of the property
- * Protect the health and safety of the occupants
- * Protect the security of the property
- * Meet FHA Minimum Property Requirements or Minimum Property Standards

More than one box may be marked depending on the assignment and property conditions.

The appraiser must indicate the reasoning for any required inspections and note this in the appropriate section of the appraisal, or in the "additional comments" section, or in an addendum, under the heading of "Reconciliation - Required Inspection " listing the required inspections.

Field
Protocol

The value "subject to completion per plans and specifications", "subject to the following repairs or alterations", or "subject to the following required inspection" must be consistent with the subject property condition(s) described.

Opinion of Market Value

- * Enter the opinion of Market Value

Final Reconciliation

? This entry should contain the appraiser's reasoning for arriving at the final value.

Date of Value

? Enter the date when the property was inspected.

Section 12- Additional Comments

These comment lines provide additional space for the appraiser to fully describe any item, area or condition where the commentary exceeds the space provided in other sections of the report. It is

recommended that any information carried forward to the additional comments section, or an addendum if needed, follow the sequence of the form with a proper heading identifying said section.

For example, the neighborhood "market conditions" comments exceed the space provided on the form. In that case, on page one in neighborhood market conditions enter "See additional comments", in the "additional comments" section enter the heading "Neighborhood Market Conditions" and provide the narrative in this section. Follow the same procedure for any section of the report where commentary exceeds space provided. This will provide the reader with the proper identification and linkage of additional comments together with a logical flow of information in a standardized reporting format.

Section 13 - Cost Approach

If the subject property is new construction (less than one year old), or the Cost Approach is recognized in the market as a basis for pricing, the appraiser may complete the Cost Approach; however, it is not required for an FHA appraisal. If, however, the subject is a unique property, has specialized improvements, is manufactured housing, or the client requests the Cost Approach be completed, then the Cost Approach is required and must be completed. The square foot method is to be used.

* State the Remaining Economic Life as a single number or as a range. This line must be completed for every FHA appraisal whether or not the cost approach is completed. An explanation is required if the remaining economic life is less than 30 years.

Cost Approach To Value

Provide adequate information for the lender/client to replicate the below cost figures and calculations.

Field

Protocol

Support for opinion of site value

* Provide a summary of the comparable land sales or other methods (abstraction, allocation, land residual, extraction) of estimating site value in support of the opinion of site value.

Reproduction or Replacement Cost

* Mark the box indicating which cost estimating method was used

* Reproduction Cost - exact duplicate with all deficiencies and obsolescence

* Replacement Cost - cost at current prices with equivalent utility.

Source of Cost Data

* Provide the name of the cost service and reference page numbers of cost tables or factors. Reviewer or reader must be able to replicate.

Provide adequate information for the lender/client to replicate the below cost figures and calculations.

Field

Protocol

Quality Rating

* Enter the quality rating of the cost tables or factors referenced.

Effective Date

* Enter the edition and date of latest updates referenced.

Comments

* Describe how physical depreciation was calculated

* Describe functional or external obsolescence,

* Gross living area calculations or refer to property sketch.

Economic Life

* Enter remaining economic life of improvements (required for all FHA appraisals).

Opinion of Site Value

* Enter the Opinion Of Site Value

Dwelling Sq. Ft. @ \$

* Enter the GLA, multiply it by the square foot factor - enter result.

Basement Sq. Ft. @ \$

* Enter basement square feet, multiply it by square foot factor – enter result.

Blank Line

* Use this line for lump sum adjustments for plumbing fixtures, dormers, fireplaces, built-in appliances, pools, etc. Add together - enter the sum.

Gar/Crprt Sq. Ft @ \$

* Enter the car storage square feet, multiply it by square foot factor – enter result.

Total Cost New

* Add the results of the first five lines together - enter the sum.

Less Depreciation

* Enter the amount of estimated depreciation as a specific dollar amount, as a percentage or as a combination of both. Entries made in either functional or external depreciation require explanation in the comments section. Add together all forms of depreciation - enter the sum and deduct this total from the total cost new.

Depreciated Cost

* Enter the difference from the total cost new less depreciation. "As-is" Value of Site Improvements

* Enter the "as-is" value of site improvements

Blank Line

* Enter marketing costs here; generally averages 6%. Also, if applicable, identify and include impact fees.

Indicated Value

* Add together depreciated cost of improvements, "as-is" value of site improvements, marketing expense and/or impact fees - enter the total.

Section 14 - PUD Information

A PUD is a project that includes common property and improvements owned and maintained by an owners' association for the use and benefit of the individual units in the subdivision. If not applicable, leave blank.

Project Information for PUDs (if applicable)

Field

Protocol

Developer/Builder in
control of HOA

? Enter an "X" in the box indicating whether or not the developer/builder is in control of the Home Owners' Association (HOA).

Unit Type(s)

* Enter an "X" in the box indicating unit type, Detached or Attached.

Provide the following information for PUDs only if the developer is in control of the HOA and the subject property is an attached dwelling unit.

The information requested is self-explanatory. Appraisers may choose to answer the last question referencing common elements and recreational facilities in support of a location adjustment regardless of dwelling style.

Field

Protocol

Legal name of project

Total number of phases Total number of units

Total number of units sold

Total units rented

Total units for sale

Data source(s)

* Provide source(s) of information, e.g. HOA board, management company, etc.

Was the project created by the conversion of an existing building(s) into a PUD? If Yes, date of conversion.

Does the project contain any multi-dwelling units? Yes No Data source(s)

Are the units, common elements, and recreation facilities complete? Yes No

If no, describe the status of completion.

Describe common elements and recreational facilities.